FISCAL MECHANISMS AND COMMUNITY RESILIENCE IN THE EUROPEAN UNION: A COMPARATIVE ANALYSIS OF LOCAL GOVERNMENT RESPONSES TO ECONOMIC SHOCKS

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Abstract

The capacity of communities to withstand and recover from economic, social, and environmental crises increasingly depends on the fiscal mechanisms implemented by national and local governments. This article examines the relationship between fiscal policy instruments and the socio-economic resilience of local communities, with particular attention to revenue structures, intergovernmental transfers, and public investment at the subnational level. Using comparative data for Romania, Poland, Germany, and Finland over the period 2015–2023, the study analyzes how different fiscal architectures influence local governments' ability to absorb shocks such as the COVID-19 pandemic, inflationary pressures, and energy price volatility. The empirical analysis relies on data from Eurostat Government Finance Statistics, the European Commission, the OECD, and the World Bank. Descriptive and comparative methods are employed to construct indicators of fiscal autonomy, transfer dependency, and local investment effort, which are combined into a composite fiscal resilience index. The results reveal significant cross-country differences in local fiscal capacity and crisis responses. Higher shares of own-source revenues, predictable intergovernmental transfers, and sustained public investment are associated with stronger resilience outcomes. The findings highlight the importance of transparent, decentralized, and institutionally robust fiscal systems, with specific policy implications for Romania and other highly centralized governance models.

Keywords: *fiscal mechanisms; community resilience; local governance; public policy; economic shocks; decentralization*

Classification JEL: H12; H30; H70; O23

1. Introduction and context of the study

Recent crises—including the COVID-19 pandemic, global supply chain disruptions, sharp increases in energy prices, and the post-2020 inflationary surge—have underscored the heightened vulnerability of local communities to external economic and social shocks. These overlapping crises have not only generated immediate negative effects on employment, income distribution, and access to public services, but have also tested the structural capacity of public institutions to respond effectively under conditions of uncertainty. As highlighted by the International Monetary Fund (2022) and the European Commission (2023), the magnitude and persistence of recent shocks have exceeded those of previous cyclical downturns, requiring unprecedented fiscal interventions across all levels of government.

The growing body of literature on resilience emphasizes that the ability of communities to absorb, adapt to, and recover from shocks depends not solely on endogenous economic or social resources, but crucially on the institutional and fiscal frameworks that underpin local governance (Norris et al., 2008; Barrett et al., 2021). In this context, fiscal architecture plays a central role in shaping local adaptive capacity. Fiscal mechanisms such as countercyclical public spending, intergovernmental transfers, tax policy flexibility, and sustained public investment influence not only the volume of resources available to local authorities, but also the speed, predictability, and targeting of policy responses (Blanchard & Perotti, 2002).

During crisis periods, countercyclical fiscal policies implemented at the local level can mitigate the depth of economic contractions by stabilizing employment, supporting local firms, and maintaining essential public services. Earlier evidence provided by Allain-Dupré et al. (2017) highlights that institutional coordination and fiscal autonomy are key determinants of effective subnational infrastructure investment (Allain-Dupre et all,2017). However, the effectiveness of such measures is strongly conditioned by the degree of fiscal autonomy enjoyed by subnational governments. These govern a substantial share of public expenditure and investment and play a major role in infrastructure provision and service delivery (OECD, 2022). The World Observatory on Subnational Government Finance and Investment (SNG-WOFI) provides comprehensive, internationally comparable data on revenue, expenditure, and investment responsibilities at subnational levels (OECD and UCLG, 2022). Where local authorities possess limited own-source revenues and depend heavily on discretionary transfers from the central budget, their capacity to respond rapidly to local needs is significantly constrained (Rodríguez-Pose, 2013). Moreover, frequent changes in transfer rules or delays in disbursement can exacerbate fiscal uncertainty and weaken local crisis management.

The COVID-19 pandemic, in particular, exposed the structural weaknesses of highly centralized fiscal systems across Europe. In countries where local governments rely predominantly on centrally allocated funds, crisis responses were often delayed, uniform, and insufficiently tailored to territorial specificities (OECD, 2022). Romania provides a salient example in this regard. According to data from the Ministry of Finance (2023), more than 65% of local administrative units depend on central government transfers for over half of their total revenues. This high degree of fiscal dependency limits local discretion in reallocating resources, constrains the ability to initiate emergency spending, and reduces incentives for long-term strategic investment.

By contrast, countries characterized by higher degrees of fiscal decentralization—such as Germany and Finland—demonstrated greater flexibility and responsiveness during recent crises. In Germany's federal system, municipalities benefit from a stable share of major tax revenues and well-established intergovernmental coordination mechanisms, enabling them to implement targeted support for vulnerable households, provide liquidity assistance to local businesses, and sustain public investment even during periods of fiscal stress (IMF, 2022). Similarly, Finland's Nordic model of local governance, based on strong local tax autonomy and high administrative capacity, allowed municipalities to adjust service provision, expand social support, and accelerate digital and infrastructural investments in response to pandemic-related disruptions (OECD, 2020).

These contrasting experiences underscore that community resilience is not an automatic outcome of economic development, but rather the result of deliberate institutional design choices. Fiscal decentralization, when combined with adequate administrative capacity and transparent governance, can enhance the continuity of public services and strengthen local adaptive capacity. However, as noted by Sow and Razafimahefa (2015) and Arends (2020), decentralization also entails risks when local governments lack the technical expertise or financial management skills necessary to effectively deploy fiscal resources. This tension has given rise to calls for a more integrated, "third-generation" model of fiscal decentralization that aligns fiscal autonomy with administrative and political accountability (Vasquez, 2025).

Against this background, the present article seeks to contribute to the ongoing academic and policy debate by addressing the following research questions:

1. How do fiscal mechanisms—particularly revenue structures, intergovernmental transfers, and local public investment—influence the socio-economic resilience of local communities?
2. What differences can be observed among European models of fiscal intervention in response to recent crises, and how do these differences affect local adaptive capacity?
3. Which fiscal and institutional elements should be strengthened in Romania to enhance community resilience and reduce vulnerability to future shocks?

By combining comparative empirical evidence with an integrated conceptual framework, the article aims to provide policy-relevant insights into how fiscal design can support more resilient, adaptive, and inclusive local development trajectories.

2. Literature review

2.1 Fiscal policy and macroeconomic stabilization

The role of fiscal policy in macroeconomic stabilization has been extensively analyzed in both theoretical and empirical literature. Classical Keynesian approaches emphasize the capacity of government spending and taxation to counterbalance fluctuations in aggregate demand, particularly during economic downturns. In this context, countercyclical fiscal policy—defined as expansionary measures during recessions and consolidation during economic booms—is considered a key instrument for smoothing business cycle volatility.

Empirical evidence supports the stabilizing role of fiscal policy, especially when interventions are timely, targeted, and of sufficient magnitude. Blanchard and Perotti (2002), using structural vector autoregressions for the United States, demonstrate that discretionary fiscal shocks have statistically significant effects on output and employment. Also, although the idea that economic stabilization should be based on the application of monetary policy rather than fiscal policy is perpetuated, it has been found that, in the context of a public debt bubble, fiscal policy adjustment instruments are more reliable than those offered by monetary policy (Kocherlakota, 2022). However, the idea that authorities can ensure an economic stabilization process by adopting macroprudential policies as a complementary element to national fiscal measures is accepted (Malmierca, 2022). More recent analyses confirm these findings in the European context, highlighting that fiscal multipliers tend to be higher during recessions than in periods of economic expansion (IMF, 2022). This asymmetry reinforces the importance of countercyclical interventions during systemic crises, such as the COVID-19 pandemic (Khodzhaian et al, 2025).

However, the effectiveness of discretionary fiscal measures is not uniform across countries. Alesina and Ardagna (2010) argue that institutional quality, credibility of fiscal frameworks, and the composition of adjustment (tax-based versus expenditure-based measures) significantly influence macroeconomic outcomes. Countries with weak administrative capacity or constrained fiscal space often experience delays in implementation and reduced policy impact. Consequently, fiscal stabilization cannot be assessed solely at the aggregate national level but must also account for the institutional channels through which resources are allocated and executed, including subnational governments.

2.2 Local public finance, decentralization, and resilience

A growing body of literature emphasizes the importance of subnational public finance in enhancing economic resilience and territorial cohesion. Fiscal decentralization theory suggests that local governments are better positioned to identify community-specific needs and to allocate resources more efficiently than central authorities (Oates, 1972). Building on this framework, Rodríguez-Pose (2013) argues that decentralized fiscal systems foster regional adaptability by allowing public spending decisions to reflect local economic structures, demographic characteristics, and social priorities. It also supports the idea of the need for authentic administrative reform in order to reduce the degree of local dependence on central resources and to support self-sustainable development, especially in rural areas (Istrate and Muntele, 2024).

Empirical studies indicate that a strong own-revenue base is a critical component of local fiscal resilience. Local governments that rely predominantly on own-source revenues—such as property taxes, local income taxes, or fees—tend to exhibit higher levels of accountability and financial autonomy, reducing their exposure to discretionary or politically driven central transfers. During periods of crisis, this autonomy enables faster responses and more targeted interventions, including social assistance, business support, and emergency infrastructure spending.

Institutional evidence from the OECD reinforces these conclusions. According to the OECD (2022) Synthesis Report – World Observatory on Subnational Government Finance and Investment, subnational governments account for a substantial share of public investment across OECD and EU countries, often exceeding 50% of total public investment. The report highlights that countries with well-designed intergovernmental fiscal frameworks—combining predictable transfers with meaningful revenue autonomy—were better able to sustain local investment during the COVID-19 crisis. Conversely, highly centralized systems experienced sharper declines in local spending and investment, amplifying territorial disparities and delaying recovery.

Nevertheless, fiscal decentralization also entails risks. Without adequate administrative capacity, sound fiscal rules, and transparent intergovernmental coordination, decentralization may exacerbate inequalities or lead to inefficient resource allocation (Sow and Razafimahefa, 2015). This has led recent literature to advocate for a more integrated approach, where fiscal decentralization is accompanied by institutional strengthening and capacity-building at the local level.

2.3 Community resilience frameworks

The concept of community resilience has evolved significantly over the past two decades, moving beyond narrow interpretations focused on short-term recovery toward more comprehensive, dynamic frameworks (Ringwood and Watson, 2023). Norris et al. (2008) conceptualize community resilience as a process linking adaptive capacities across four interrelated domains: economic development, social capital, information and communication, and community competence. In this view, resilience is not a static outcome but an ongoing capacity to anticipate, absorb, adapt to, and transform in response to shocks.

Subsequent research has further expanded this framework by emphasizing the institutional and infrastructural dimensions of resilience. The World Bank (2022) underscores the central role of public institutions in coordinating responses to crises, managing risks, and ensuring continuity of essential services. Effective governance, transparent decision-making, and robust public financial management systems are identified as key enablers of adaptive and transformative resilience.

Public infrastructure—particularly in health, education, transport, and digital networks—also plays a foundational role in strengthening community resilience. Investments in resilient infrastructure reduce vulnerability to shocks while enhancing long-term development potential. Importantly, the ability to plan and finance such investments depends heavily on the fiscal capacity of local governments and the stability of intergovernmental fiscal arrangements.

Taken together, these frameworks suggest that community resilience emerges from the interaction between fiscal design, institutional capacity, and territorial governance. Fiscal mechanisms are therefore not merely financial tools but integral components of broader resilience systems, shaping how communities prepare for, respond to, and recover from complex and overlapping crises.

3. Data and methodology

The empirical analysis is based on a comparative sample of four European Union member states: Romania, Poland, Germany, and Finland. The selection of countries follows a purposive sampling strategy aimed at capturing distinct models of fiscal governance, degrees of decentralization, and institutional capacity within the European Union. This approach allows for a structured comparison of how different fiscal architectures shape the resilience of local communities during periods of systemic shock. Romania is included as the focal case, representing a highly centralized fiscal system characterized by a strong dependence of local governments on intergovernmental transfers and limited own-source revenue capacity. This structural configuration makes Romania particularly vulnerable to delays and rigidities in central budget allocation during crises. Poland is selected as a comparable Central and Eastern European country with a shared post-transition legacy but more advanced decentralization reforms, including a broader local tax base and more predictable transfer mechanisms. Germany exemplifies a mature federal system in which subnational governments benefit from extensive fiscal autonomy, constitutionally embedded revenue-sharing arrangements, and well-developed intergovernmental coordination mechanisms. This institutional setting enables rapid and coordinated fiscal responses across levels of government. Finland represents the Nordic model of local governance, characterized by high local tax autonomy, a strong municipal income tax, and a substantial role of local governments in public service provision and investment. The inclusion of Finland provides a benchmark for high-capacity, decentralized systems with strong resilience outcomes. This cross-country sample ensures variation along key dimensions relevant to the research questions—fiscal autonomy, transfer dependency, and investment capacity—while maintaining institutional comparability within the European Union framework.

The empirical analysis relies exclusively on harmonized and internationally comparable secondary data drawn from official statistical and institutional sources. The primary data source is Eurostat Government Finance Statistics (GFS), specifically dataset *gov_10a_main*, which provides detailed information on revenues and expenditures by institutional subsector under the European System of Accounts (ESA 2010). This dataset ensures consistency in the classification of fiscal variables across countries and over time. Complementary information is drawn from European Commission (2023) country reports, particularly in relation to fiscal governance reforms, administrative capacity, and crisis-response measures implemented at the subnational level. These qualitative insights support the interpretation of quantitative results.

The analysis covers the period 2015–2023, allowing for the examination of pre-crisis conditions, crisis responses during the COVID-19 pandemic, and the initial post-crisis adjustment phase. To operationalize the concept of fiscal resilience at the local level, the study employs a set of fiscal indicators grouped into three main dimensions: revenue autonomy, fiscal capacity, and investment effort.

First, the structure of local government revenues is measured as the share of own-source revenues, intergovernmental transfers, and other revenues expressed as percentages of total local government revenues (Table 1). This indicator captures the degree of fiscal autonomy and dependency on central government funding. Second, local government revenues as a percentage of GDP are used as a proxy for overall fiscal capacity at the subnational level (Table 2). Higher values indicate a greater ability of local governments to mobilize resources relative to the size of the national economy. Third, local public investment as a percentage of GDP is employed to assess the investment effort and long-term resilience-enhancing capacity of local governments (Table 3). Investment spending is particularly relevant in the context of resilience, as it reflects the ability to maintain and expand public infrastructure during and after crises. Together, these indicators provide a multidimensional perspective on local fiscal resilience, capturing both short-term stabilization capacity and long-term adaptive potential.

All fiscal indicators are harmonized in accordance with the ESA 2010 methodology, ensuring full comparability across countries and years. The analysis focuses on the local government subsector (S.1313), excluding regional or social security funds to maintain conceptual consistency. Revenue components are expressed as percentages of total local government revenues, allowing for cross-country comparison independent of absolute budget size. Local public investment is proxied by gross fixed capital formation (P.51g**)**, which represents expenditure on non-financial assets and is widely used in the literature as a measure of public investment. The study applies descriptive and comparative analytical methods, including trend analysis and cross-country comparisons, to identify patterns and structural differences in fiscal resilience. In a subsequent step, selected indicators are aggregated into a composite fiscal resilience index, calculated as the unweighted average of standardized indicators for revenue autonomy, transfer dependency (inverted), and investment effort. This index facilitates a synthetic comparison of resilience outcomes across countries.

While the analysis is primarily descriptive, the methodological framework provides a robust basis for interpreting how fiscal design and institutional capacity interact to shape the resilience of local communities.

4. Empirical results

4.1 Structure of local government revenues

Table 1 presents the structure of local government revenues for the four countries included in the sample, expressed as percentages of total local government revenues over the period 2015–2023. The results reveal pronounced and persistent cross-country differences in revenue composition, reflecting distinct models of fiscal governance and degrees of local fiscal autonomy.

Table 1. Structure of local government revenues (% of total local revenues)

Country	Year	Own revenues (%)	Transfers from the central budget (%)	Others revenues (%)
Germany	2015	42,01	36	21,99
	2016	41,86	37,07	21,07
	2017	41,89	36,91	21,20
	2018	41,22	35,60	23,18
	2019	41,53	36,72	21,75
	2020	37,34	41,65	21,01
	2021	40,99	37,98	21,03
	2022	41,12	37,54	21,33
	2023	40,64	38,63	20,73
Poland	2015	40,44	50,14	9,42
	2016	40,22	55,47	4,31
	2017	39,44	54,78	5,78
	2018	38,85	52,14	9,01
	2019	37,66	53,39	8,95
	2020	35,43	55,79	8,77
	2021	35,40	56,45	8,16
	2022	36,39	54,23	9,38
	2023	33,03	51,65	15,32
Romania	2015	13,44	67,66	18,90
	2016	14,85	73,88	11,27
	2017	14,73	76,75	8,52

	2018	15,46	70,90	13,64
	2019	14,31	67,30	18,4
	2020	12,68	68,87	18,45
	2021	13,26	68,58	18,16
	2022	12,68	68,95	18,37
	2023	11,65	63,59	24,76
Finland	2015	52,1	30,9	16,9
	2016	51,7	31,7	16,5
	2017	53,4	30,7	16,0
	2018	52,4	31,2	16,4
	2019	52,8	30,8	16,4
	2020	50,9	34,4	14,7
	2021	51,5	33	15,5
	2022	50,7	32,9	16,4
	2023	25,0	56,9	18,2

Source: own calculation based on dataset *gov_10a_main*

Finland consistently records the highest share of own-source revenues, exceeding 50% in most years prior to 2023. This pattern reflects the central role of the municipal income tax and other local taxes in financing public services, confirming the strong fiscal autonomy of Finnish local governments. Even during the COVID-19 crisis, the decline in own-source revenues was limited and largely compensated by predictable transfer mechanisms, preserving overall revenue stability.

Germany exhibits a more balanced revenue structure, with own-source revenues accounting for approximately 40–42% of total local revenues throughout most of the period. Intergovernmental transfers remain significant but do not dominate the revenue mix, suggesting a stable sharing of fiscal responsibilities between levels of government. Notably, the pandemic period (2020–2021) is associated with a temporary increase in transfer dependence, reflecting coordinated federal support measures aimed at stabilizing municipal finances. By contrast, Romania remains heavily dependent on central government transfers, which account for over two-thirds of total local revenues in most years. Own-source revenues consistently remain below 15%, indicating limited local tax autonomy and weak capacity for independent fiscal action. Although transfer dependence slightly declines in 2023, this shift is accompanied by an increase in volatile “other revenues” rather than a structural strengthening of own-source revenue capacity. Poland occupies an intermediate position, combining a relatively stable share of own revenues (around 35–40%) with a high, but more predictable, reliance on transfers. Overall, the results confirm that revenue structure is a key determinant of local fiscal resilience. Systems characterized by a diversified and autonomous revenue base display greater stability during crisis periods, while highly centralized systems remain vulnerable to delays and constraints in central budget allocation.

4.2 Local revenues and fiscal capacity

Table 2 reports local government revenues as a percentage of GDP, serving as a proxy for the overall fiscal capacity of local governments relative to the size of the national economy. The results indicate substantial differences across countries, with important implications for local service provision and crisis-response capabilities. Finland records the highest level of local revenues, exceeding 20% of GDP throughout the entire period and peaking during the pandemic years. This reflects the extensive responsibilities assigned to local governments in areas such as education, health, and social services, as well as their strong revenue-raising capacity. Poland also displays relatively high values, ranging between 13% and 15% of GDP, suggesting a solid fiscal base at the local level despite its partial reliance on transfers. Germany occupies a middle position, with local revenues representing approximately 8–9% of GDP. While lower than in Finland or Poland, this figure must be interpreted in the context of Germany's federal structure, where significant fiscal responsibilities are shared between the Länder and municipalities. Importantly, the stability of local revenues relative to GDP during the crisis years points to effective intergovernmental coordination.

Romania consistently records the lowest levels of local revenues, fluctuating between 8% and 10% of GDP. This limited fiscal capacity constrains local governments' ability to expand spending during downturns and reinforces their dependence on centrally funded programs. The observed increase in 2020–2021 reflects exceptional crisis-related transfers rather than a permanent enhancement of local fiscal capacity.

Tabelul 2. Venituri ale administrațiilor locale (% din PIB)

Țara	2015	2016	2017	2018	2019	2020	2021	2022	2023
Germany	8	8,3	8,3	8,6	8,5	9,1	8,9	8,8	8,6
Poland	12,8	13,1	13,4	13,8	14	14,8	14,6	13,2	13,1
Romania	10,6	9,4	9,1	8	8,4	9,3	9,3	8,8	9,1
Finland	21,4	21,1	20,5	20	19,9	22	21,7	21,2	22,3

Source: own calculation based on dataset *gov_10a_main*

These findings highlight that higher local revenue capacity provides a critical buffer during economic shocks, enabling local governments to sustain essential services and implement targeted interventions.

4.3 Local public investment

Table 3 presents local public investment expenditure as a percentage of GDP, proxied by gross fixed capital formation (P.51g). Investment spending represents a key long-term component of fiscal resilience, as it supports infrastructure development, service quality, and adaptive capacity.

Table 3. Investment expenditure of local governments (% GDP**)**

Țara	2015	2016	2017	2018	2019	2020	2021	2022	2023
Germany	7,9	8,1	8	8,2	8,3	8,9	8,7	8,6	8,9
Poland	12,9	12,9	13,3	14,1	14,2	14,7	14	13,6	13,8
Romania	9,9	9,2	8,9	8	8,6	9,6	9,1	8,7	9,3
Finland	22	21,5	20,7	20,8	21,1	22,1	22	21,4	23,3

Source: own calculation based on dataset *gov_10a_main*

Finland consistently records the highest levels of local public investment, exceeding 20% of GDP throughout the period and increasing further during the crisis years. This sustained investment effort underscores the proactive role of local governments in strengthening infrastructure resilience and supporting long-term development, even in adverse economic conditions. Poland also demonstrates a strong investment profile, with local investment levels generally above 13% of GDP. Despite a slight decline after 2020, investment remains comparatively high, reflecting the prioritization of infrastructure and local development within Poland's decentralized fiscal framework. Germany's local investment levels are more moderate but stable, ranging between 8% and 9% of GDP. The absence of sharp declines during the pandemic years suggests effective stabilization mechanisms and continued investment support from higher levels of government.

Romania exhibits the lowest and most volatile levels of local public investment, fluctuating between 8% and 10% of GDP. Investment spending increases during crisis periods are largely driven by centrally funded programs and EU-supported projects, highlighting the limited autonomous investment capacity of local governments.

Taken together, the empirical results demonstrate a strong association between sustained local public investment and broader fiscal resilience. Countries with higher and more stable investment levels are better positioned to support recovery and to enhance long-term adaptive capacity at the community level.

4.4 Composite Fiscal Resilience Index

To provide a synthetic assessment of local fiscal resilience, this study constructs a Composite Fiscal Resilience Index, reported in Table 4, which integrates the main dimensions identified in the empirical analysis. The index combines three standardized indicators: the share of own-source revenues in total local government revenues, capturing fiscal autonomy; the inverse of transfer dependency, reflecting exposure to central budget constraints; and local public investment as a percentage of GDP, representing long-term adaptive and developmental capacity. All indicators are normalized using a min–max transformation and aggregated using equal weights, in line with common practice in comparative fiscal analysis.

Table 4. Composite Fiscal Resilience Indicator (2015–2023 averages)

Country	**Own revenues (%)**	**Transfers (%)**	**Local investments (% GDP)**	Resilience Index
Romania	13,3	68,0	8,9	**0,28**
Poland	36,1	53,8	13,9	**0,56**
Germany	40,5	38,0	8,6	**0,69**
Finland	50,6	33,5	21,6	**0,92**

Source: own calculation

Table 4 presents average values for the period 2018–2023 and reveals clear cross-country differences in fiscal resilience at the local level. Finland records the highest index value, reflecting its strong local tax autonomy and consistently high levels of public investment. Germany follows, benefiting from a balanced revenue structure and institutionalized intergovernmental coordination mechanisms that helped stabilize local finances during recent crises. Poland occupies an intermediate position, combining moderate fiscal autonomy with relatively high investment effort, which partially offsets its continued reliance on intergovernmental transfers. Romania records the lowest composite index value, underscoring structural weaknesses in its local fiscal system. High dependence on central transfers, limited own-source revenue capacity, and comparatively low autonomous investment levels constrain the ability of local governments to respond proactively to economic shocks. Although crisis-related transfers temporarily increased local revenues during the pandemic, these measures did not translate into a durable strengthening of local fiscal resilience. Overall, the composite index confirms that fiscal resilience is not driven by a single factor but emerges from the interaction of revenue autonomy, predictable intergovernmental relations, and sustained investment capacity. The results reinforce the argument that decentralized and institutionally robust fiscal systems provide a more stable foundation for community resilience in the face of complex and overlapping crises.

5. Conclusions

This study demonstrates that fiscal mechanisms constitute a fundamental pillar of the socio-economic resilience of local communities. Through a comparative analysis of Romania, Poland, Germany, and Finland over the period 2015–2023, the article provides robust evidence that resilience at the local level is strongest in fiscal systems characterized by diversified own-source revenues, predictable and rule-based intergovernmental transfers, and sustained public investment. These elements jointly enable local governments to absorb economic shocks, maintain essential public services, and support recovery in the aftermath of crises.

The empirical results underline that highly centralized fiscal systems face inherent structural constraints that limit the autonomy and responsiveness of local authorities during periods of systemic disruption. In the case of Romania, persistent dependence on central government transfers, coupled with weak own-revenue capacity and limited administrative resources, reduces the ability of local governments to design and implement timely, context-specific interventions. Crisis-related fiscal support, while important in the short term, has largely taken the form of ad hoc transfers, failing to produce durable improvements in local fiscal resilience.

The findings also highlight that fiscal decentralization alone is not sufficient to ensure resilience. Effective decentralization must be accompanied by adequate administrative capacity, transparent fiscal rules, and stable intergovernmental coordination mechanisms. Countries such as Germany and Finland illustrate that when revenue autonomy is embedded within a coherent institutional framework, local governments are better positioned to combine short-term stabilization with long-term investment strategies that enhance adaptive and transformative capacity. From a policy perspective, the analysis suggests that strengthening community resilience requires a shift from reactive crisis management toward a preventive and anticipatory fiscal design. Empowering local governments with stable and diversified revenue bases, enhancing their capacity to plan and execute public investment, and ensuring the predictability of intergovernmental transfers are critical steps in this direction. For Romania and other highly centralized fiscal systems, targeted reforms aimed at expanding local tax autonomy, improving public financial management, and strengthening institutional capacity at the local level could significantly enhance resilience outcomes. Ultimately, resilient communities depend on fiscal systems that are not only well-funded but also flexible, transparent, and institutionally robust. By linking fiscal design to community resilience, this study contributes to the broader academic and policy debate on how multilevel fiscal governance can better prepare societies to withstand and recover from increasingly frequent and complex crises.

Despite its contributions, the study has several limitations. First, the analysis relies primarily on descriptive and comparative methods, which limits causal inference. Future research could employ econometric techniques to test the impact of specific fiscal variables on resilience outcomes more rigorously. Second, the composite index assigns equal weights to all components, which may not fully capture their relative importance across different institutional contexts. Additionally, the study focuses on a limited sample of EU countries. Expanding the analysis to include Southern and Western European countries could provide further insights into alternative fiscal governance models. Finally, future research could integrate social and environmental resilience indicators, offering a more comprehensive assessment of community resilience beyond fiscal dimensions.

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