

Fiscal sustainability is the ability of a government to maintain public finances at a credible and serviceable position over the long term. Ensuring long-term fiscal sustainability requires that governments engage in continual strategic forecasting of future revenues and liabilities, environmental factors and socio-economic trends in order to adapt financial planning accordingly. High and increasing debt levels are harmful to governments' fiscal positions and can cause a vicious cycle of growing debt, reducing the potential for economic growth as funds are diverted away from productive investments. Many OECD member countries continue to face rising public debt-to-GDP ratios since the financial and economic crisis. The costs associated with addressing the current economic slowdown, as well as projected increases in ageing-related spending, present serious challenges for the sustainability of public finances.

The OECD has produced estimates of increases in the underlying primary balances that would be required to reduce gross public debt to 60% of GDP by 2030. According to this model, Greece, the United Kingdom, and the United States require a total average increase from their respective 2012 primary underlying balances of over 6% of potential GDP (economy working at full capacity), in order to reduce public debt to 60% of GDP in this time frame. Japan requires 13% of potential GDP to reduce its debt-to-GDP ratio to 60%, however the required consolidation efforts are so large that it is not expected to reach this target by 2030 in this scenario. Conversely, the current states of public finances (e.g. fiscal balances and levels of debt) in Denmark, Estonia, Germany, Korea and Switzerland are such that these countries are not expected to require surpluses to reduce debt to reach the target of 60% of GDP.

On average, OECD member countries have implemented or announced fiscal consolidation plans equivalent to over 5.5% of GDP for the 2009-15 period, of which two-thirds are structured around expenditure measures, and the remaining one-third around revenue measures. However, the size and composition of cumulative fiscal consolidation plans vary significantly across OECD member countries. Countries with the largest economic imbalances and the most rapid deterioration in public finance require larger fiscal consolidation. As such, Greece, Ireland and Portugal have announced fiscal consolidation packages equalling more than 12% of GDP. On the contrary, Canada, Sweden and Switzerland have implemented or announced fiscal consolidation packages that are below 1.6% of GDP. Expenditure measures account for the largest share of fiscal consolidation packages in most countries. Revenue measures represent the largest share in only seven countries: Belgium, the Czech Republic, Denmark, Estonia, Italy, Poland, and Turkey. Sound strategic forecasting exercises should consider the costs associated with demographic changes; especially since most OECD member countries face growing budgetary pressures due to expected increases in ageing-related spending and technological change on health care, long-term care and pensions. On average, without policy changes, ageing-related public spending in OECD member countries is expected to increase by nearly three percentage points of GDP between 2014 and 2030.

#### Methodology and definitions

The data for Figures 2.18 and 2.20 are drawn from the OECD *Economic Outlook*, No. 93. Total consolidation needed to achieve a government gross financial liability-to-GDP ratio equal to 60% of GDP by 2030 is measured in two time spans: between 2012 and 2014 as the change in the underlying primary balance, and from 2014 to 2030 as the difference between the level reached in 2014 and its average over the latest period. The assumptions made to generate the primary balance required to reduce the debt-to-GDP ratio to 60% can be found in the OECD *Economic Outlook*, No. 93, in Box 4.5 and Table 4.2.

The data for Figure 2.19 are drawn from the 2012 OECD Survey on Fiscal Consolidation.

For most countries, data on gross debt used for the purpose of these calculations refer to the liabilities (short-term and long-term) in the general government as defined in the *System of National Accounts*. This definition differs from the definition of debt under the Maastricht Treaty which is used to assess EU fiscal positions.

#### Further reading

OECD (2013), "OECD Economic Outlook No. 93", OECD *Economic Outlook: Statistics and Projections* (database), <http://dx.doi.org/10.1787/data-00655-en>.

OECD (2012), *Restoring Public Finances, 2012 Update*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264179455-en>.

#### Figure notes

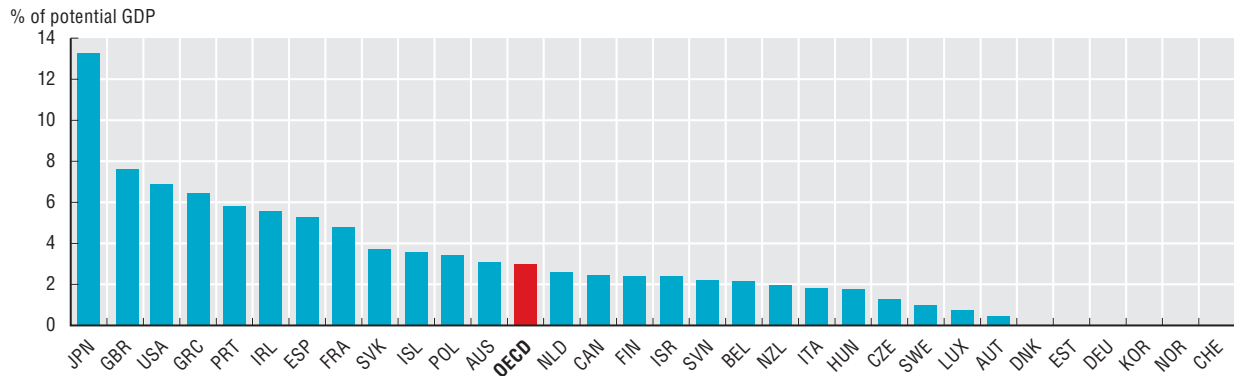
2.18 and 2.20: Data for Chile, Mexico and Turkey are not available. In Denmark, Estonia, Germany, Korea, Norway and Switzerland, no consolidation is needed to achieve the 60% gross financial liability-to-GDP ratio by 2030. The OECD average is unweighted. Fiscal projections are the consequence of applying a stylised fiscal consolidation path and should not be interpreted as a forecast.

2.19: The data are the sum of annual incremental consolidation from 2009/10 until 2015 as reported by the national authorities. Only the following countries reported consolidation in 2009: Estonia, Hungary, Ireland, Poland and Slovenia. Hungary's 2007-08 consolidation is not included. Austria reports consolidation until 2016. The following participating countries have not reported an announced concrete consolidation plan and are not included in the graph: Japan, Korea and the United States. Australia reports consolidation (especially in 2013) but applies a broader definition of the term consolidation than in this survey. New Zealand and Slovenia have reported some revenue measures but they are not completely quantified.

2.20: For the ageing-related spending where projections are not available over the period 2014-30, linear interpolation has been applied.

Information on data for Israel: <http://dx.doi.org/10.1787/888932315602>.

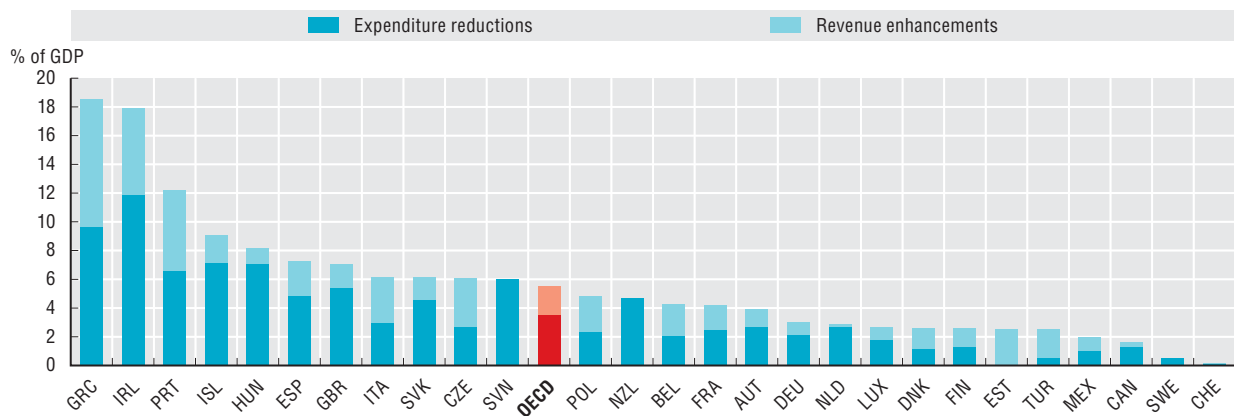
**2.18. Total consolidation requirements between 2012 and 2030 in order to reduce government gross financial liabilities to 60% of GDP**



Source: OECD calculations; OECD (2013), "OECD Economic Outlook No. 93", OECD Economic Outlook: Statistics and Projections (database), May 2013, <http://dx.doi.org/10.1787/data-00655-en>.

StatLink <http://dx.doi.org/10.1787/888932941120>

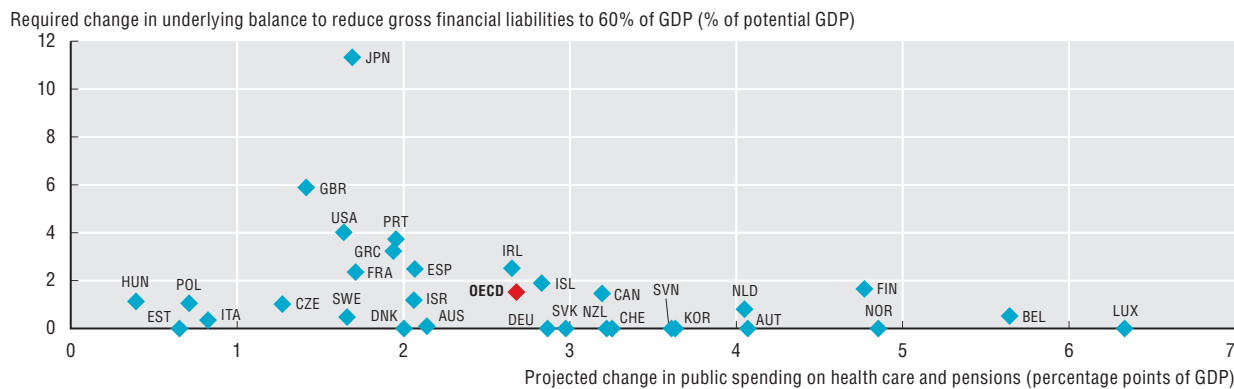
**2.19. Expenditure-based and revenue-based fiscal consolidation as percentage of GDP (2009-15)**



Source: 2012 OECD Survey on Fiscal Consolidation.

StatLink <http://dx.doi.org/10.1787/888932941139>

**2.20. Fiscal consolidation requirements and projected change in ageing-related expenditures (2014 to 2030)**



Source: OECD calculations; OECD (2013), "OECD Economic Outlook No. 93", OECD Economic Outlook: Statistics and Projections (database), May 2013, <http://dx.doi.org/10.1787/data-00655-en>.

StatLink <http://dx.doi.org/10.1787/888932941158>



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