General government fiscal balance

Governments spend money in order perform their activities, and the required financial resources to cover government expenditures are obtained through the collection of taxes or by contracting debt. The fiscal balance is the difference between government revenues and spending. If in a given year, a government receives more than it spends, a surplus occurs. Conversely, when the government spends more than it receives in revenues, there is a deficit. Consecutive deficits will lead to mounting debt levels and consequently higher payments of interest. The primary balance that is the balance before interest payments signals the capacity of governments to honour debt without the need for further indebtedness.

On average OECD countries reported deficits reaching 4.2% of GDP in 2013. The largest deficits occurred in Slovenia (14.6%), Greece (12.3%) and Japan (8.5%) in the cases of Slovenia (4.9%) and Greece (3.5%) deficits decreased substantially in 2014 as, amongst others, the resources required to capitalize the banking system were a one off feature accounted mainly in 2013. Six OECD countries ran surpluses in 2013; from those Norway (11.3%), Korea (1.3%) and Luxembourg (0.9%) reported the highest figures. From 2013 to 2014, half of the countries with available information experienced improvements in their fiscal balances with Denmark (1.2%) and Estonia (0.6%) moving also their balances from a deficit to a surplus.

The average deficit in 2013 was 4.2 percentage points lower than in 2009 when it reached a peak of 8.4%, as the effects of the global financial and economic crisis were more acute. However, compared to an average deficit of 1.5% in 2007 the current levels are still far from the pre-crisis levels. Furthermore, between 2009 and 2013 the fiscal balance deteriorated in three OECD countries: Slovenia (8.4 p.p.), Sweden and Switzerland (both 0.7 p.p.).

On average, the deficit of the primary balance for OECD countries was 1.3% of GDP in 2013. However, it varied substantially across countries. Norway (12%), Korea (3.1%), Iceland (3.0%), Germany (2.2%) and Hungary (2.1%) experienced higher surpluses. On the other end of the spectrum, Slovenia (12%), Greece (8.3%) and Japan (6.4%) had primary deficits higher than 5%. According to the 2013 data, primary deficits occurred in around half of OECD countries implying a need to rely on debt to cover their spending. The two countries of Greece (0.4%) and Estonia (0.7%) shifted from a primary deficit in 2013 to a primary surplus in 2014. Consecutive primary deficits seriously threaten the sustainability of public finances in the medium term. For countries with a large public debt, achieving a primary balance is often seen as a necessary, though not sufficient condition to stabilize or diminish debt levels.

Interest payments are the result of previous deficits and in consequence linked to the size of public debt. On average, in 2013, interest payments in OECD countries amounted to 2.9% of GDP; however they ranged from around 5% in Iceland, Italy and Portugal to less than 0.5% in Estonia and Luxembourg. In OECD countries with available information no major changes occurred between 2013 and 2014 on the level of interest payments (notable is the increase of 1 p.p. of GDP recorded for Slovenia). While paying interest does not represent per se a negative feature, if debt continues to grow, it might add further pressure to the sustainability of public finances.

Methodology and definitions

Fiscal balance data are derived from the *OECD National Accounts Statistics* (database), based on the *System of National Accounts* (SNA), a set of internationally agreed concepts, definitions, classifications and rules for national accounting. The SNA framework has been revised and most of the OECD countries have partly or entirely implemented the updated 2008 SNA methodology (see Annex A for details). Using SNA terminology, general government consists of central government, state government, local government and social security funds. Fiscal balance, also referred to as net lending (+) or net borrowing (-) of general government, is calculated as total government revenues minus total government expenditures. Revenues encompass taxes, net social contributions, and grants and other revenues. Expenditures comprise intermediate consumption, compensation of employees, subsidies, property income (including interest spending), social benefits, other current expenditures (mainly current transfers) and capital expenditures (i.e. capital transfers and investments). The primary balance is the fiscal balance net of interest payments on general government liabilities.

Gross domestic product (GDP) is the standard measure of the value of goods and services produced by a country during a period.

Further reading

OECD (2014a), *National Accounts at a Glance 2014*, OECD, Paris, *http://dx.doi.org/10.1787/na_glance-2014-en*.

OECD (2014b), *OECD Factbook 2014: Economic, Environmental and Social Statistics*, OECD, Paris, *http://dx.doi.org/10.1787/factbook-2014-en*.

Figure notes

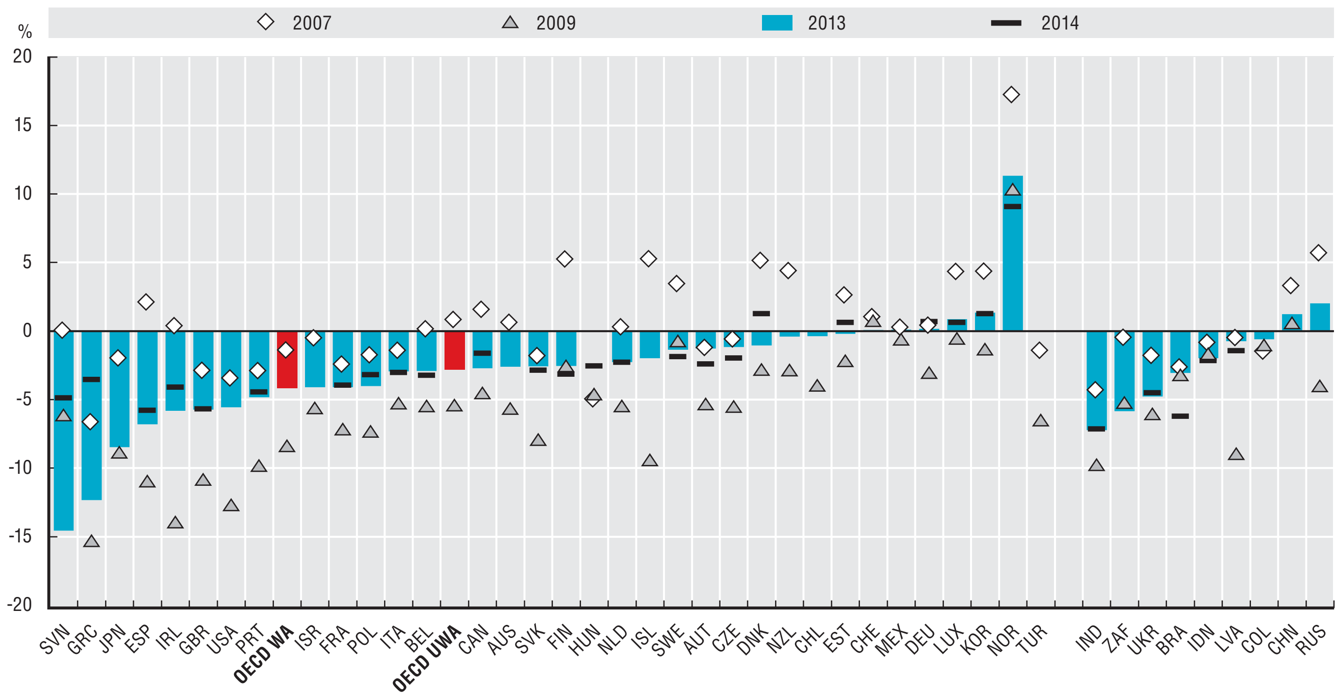
Data for Colombia and Russia are 2012 rather than 2013.

2.1: Data for Chile and Turkey and are not included in the OECD average because of missing time series. Data for China are 2012 rather than 2013.

2.2: Data for Chile and Turkey are not available.

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

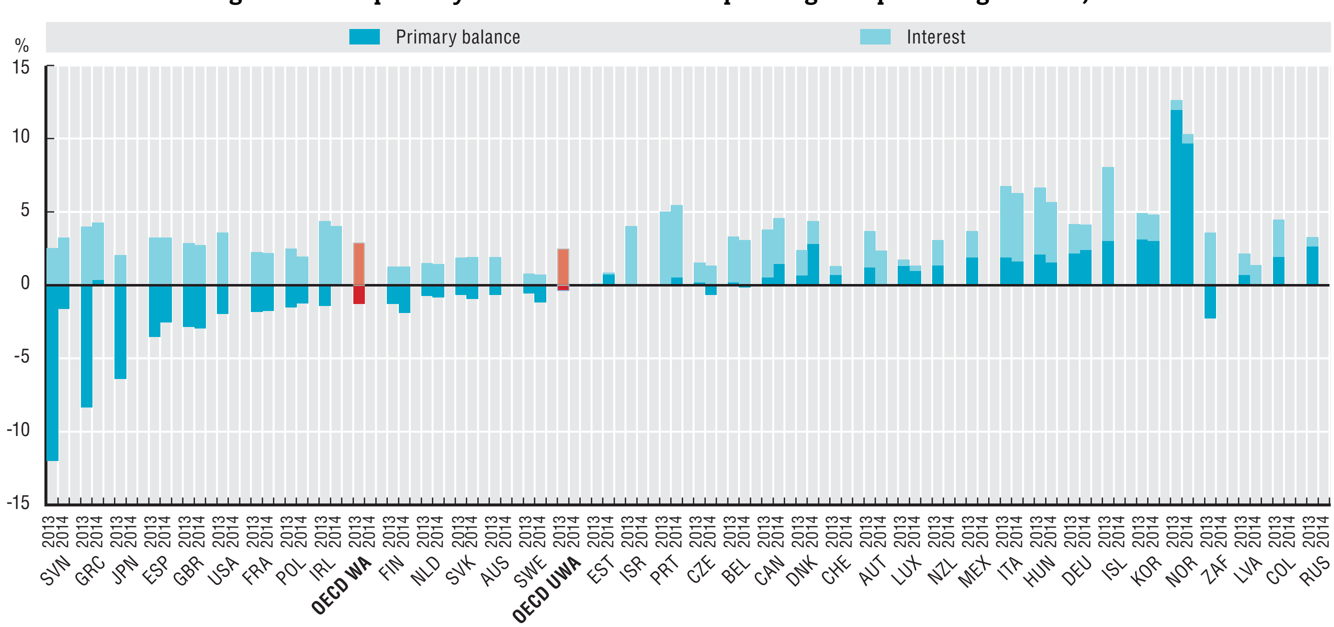
2.1. General government fiscal balance as a percentage of GDP, 2007, 2009, 2013 and 2014



Source: *OECD National Accounts Statistics* (database). Data for the other major economies of Brazil, India, Indonesia and Ukraine are from the *IMF Economic Outlook* (April 2015).

StatLink http://dx.doi.org/10.1787/888933248058

2.2. General government primary balance and interest spending as a percentage of GDP, 2013 and 2014



Source: *OECD National Accounts Statistics* (database).

StatLink http://dx.doi.org/10.1787/888933248065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