

General government fiscal balance

The fiscal balance is the difference between government revenues and expenditures. A fiscal deficit occurs when, in a given year, a government spends more than it receives in revenues. On the other hand, a government will run a surplus when revenues exceed expenditures. Consecutive large fiscal deficits are strongly detrimental to the sustainability of public finances as they are financed by additional debt. When the level of outstanding debt is high, the cost of servicing that debt (both in absolute interest payments and in higher interest rates) pushes a country further into deficit, thereby hindering fiscal sustainability. Governments can reduce future debt servicing costs by improving the primary balance, which equals the fiscal balance net of interest payments.

In 2011, OECD member countries ran a fiscal deficit representing on average 3.5% of GDP. The largest deficits occurred in Ireland (13.3%), the United States (10.1%), Greece (9.6%), Spain (9.4%) and Japan (8.9%). Only six OECD member countries ran a fiscal surplus: Norway (13.4%), Hungary (4.2%), Korea (2.0%), Estonia (1.2%), Switzerland (0.5%) and Sweden (0.03%).

Between 2001 and 2009, fiscal deficits increased in all OECD countries except Switzerland and Germany, from an average of 0.7% to 5.5% of GDP. However, most of the deterioration took place in 2008 and 2009 as a result of the global financial and economic crisis, when government expenditures increased faster than both revenues and GDP (in nominal terms and in all countries except Israel and Hungary). The trend inverted after 2009 mostly due to the fiscal rules, new budget practices and fiscal consolidation plans implemented in response to the crisis. Between 2009 and 2011, the growth rates of expenditures (in nominal terms) were lower than the ones of revenues and GDP, in all except four countries (Japan, New Zealand, Slovenia and Switzerland). In consequence, fiscal balance as a percentage of GDP improved on average by two percentage points, with fiscal deficits declining the most in Hungary (8.7 percentage points to become a surplus of 4.2%), Greece (6 percentage points) and Portugal (5.8 percentage points). The significant improvement in Hungary's fiscal balance is due to capital transfers in 2011 (amounting to 9.7% of GDP) from households to general government, due to withdrawals from private pension funds. Only three countries did not improve their fiscal balance between 2009 and 2011: Japan, Slovenia and Switzerland.

In 2011, the primary fiscal balance of OECD member countries reflected an average deficit of 0.8% of GDP. Debt interest payments accounted for the remaining share of the fiscal balance. Primary balance strongly differed across OECD member countries: 19 countries ran primary deficits, ranging from 10% of GDP in Ireland to 0.1% in Denmark, whereas 14 countries ran primary surpluses, ranging from 0.2% of GDP in Austria to 14.5% in Norway.

The importance of interest payments in the fiscal balance also varied considerably across countries. Within the 19 countries running primary deficits, interest payments

accounted on average for 2.9% of GDP, ranging from 1.4% in the Czech Republic to 7.2% in Greece. Although Greece's primary deficit was not the highest with 2.4% of GDP, its interest payments were the highest across OECD member countries.

Methodology and definitions

General government fiscal balance data are derived from the OECD National Accounts Statistics (database), which are based on the System of National Accounts (SNA), a set of internationally agreed concepts, definitions, classifications and rules for national accounting. 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 general government revenues minus total general government expenditures. Revenues encompass social contributions, taxes other than social contributions, and grants and other revenues. Expenditures comprises intermediate consumption, compensation of employees, subsidies, social benefits, other current expenditures (including interest spending), capital transfers and other capital expenditures. 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 (2013a), *National Accounts at a Glance 2013*, OECD Publishing, Paris, http://dx.doi.org/10.1787/na_glance-2013-en.

OECD (2013b), *OECD Economic Outlook*, Vol. 2013/1, OECD Publishing, Paris, http://dx.doi.org/10.1787/eco_outlook-v2013-1-en.

Figure notes

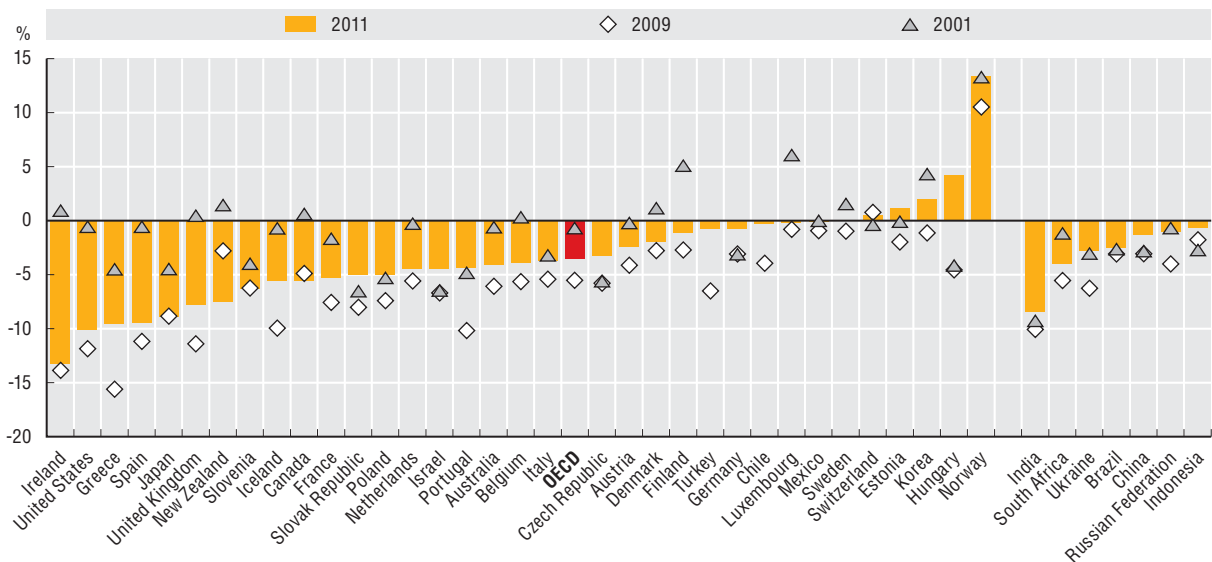
Data for Canada, New Zealand and the Russian Federation are for 2010 rather than 2011.

3.1: Data for Chile and Turkey for 2001 are not available and these countries are not included in the OECD average. Data for Chile are for 2010 rather than 2011. Data for Japan and Mexico for 2001 are estimated. Data for the Russian Federation are for 2002 instead of 2001.

3.2: Data for Chile are not available.

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

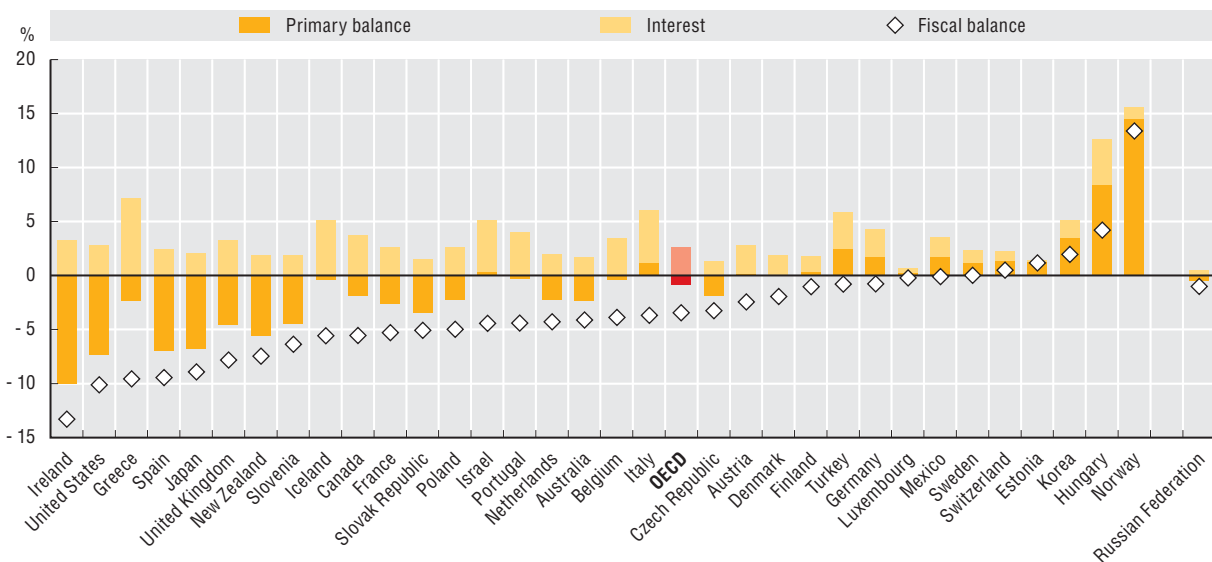
3.1. General government fiscal balance as a percentage of GDP (2001, 2009 and 2011)



Source: Data for OECD member countries: OECD National Accounts Statistics (database). Data for the other major economies (excluding the Russian Federation): International Monetary Fund (2013), *Economic Outlook*, April 2013, IMF, Washington, DC.

StatLink <http://dx.doi.org/10.1787/888932941310>

3.2. General government primary balance and interest spending as a percentage of GDP (2011)



Source: OECD National Accounts Statistics (database).

StatLink <http://dx.doi.org/10.1787/888932941329>



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