12. Government deficits/surpluses

The fiscal balance is the difference between government revenues and spending. 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. Fiscal balances include a structural component (adjusted for one-offs in revenues and spending) as well as a cyclical one. A structural deficit occurs when the economy is running at full capacity and governments continue to spend more than their revenues. The cyclical component of a deficit, however, is sensitive to the economic cycle and results from the difference between actual and potential output. For example, during an economic downturn, cyclical deficits result from the lower revenues and higher expenditures on social programmes such as unemployment benefits.

On average, OECD deficits have increased since 2000 due partly to the pursuit in some countries of pro-cyclical policies (increasing public spending as a share of GDP when growth was strong, or, "not saving for a rainy day"). Between 2000 and 2008 the average annual GDP growth in the OECD was 3%, however, the majority of OECD countries (21) ran, on average, deficits during this time. Countries such as Greece, Hungary, Israel and Japan ran deficits of over 5% of GDP over this period on average. Conversely, fiscal balances in Australia, Canada, Denmark, Estonia, Finland, Ireland, Korea, Luxembourg, New Zealand, Norway and Sweden were positive on average during the same period of growth.

The financial and economic crisis caused further increases in the fiscal deficits of OECD member countries through lost output, lower tax revenues and increased spending to support recovery efforts. The fiscal balance of 29 OECD member countries in 2010 was –5.6% of GDP, the majority of which was structural (3.4% of GDP). Despite having run a surplus, on average, from 2000 to 2008, Ireland had a fiscal deficit of 32.4% of GDP in 2010, with a large cyclical component (25% of GDP). Among the OECD member countries for which data are available, Norway had a positive fiscal balance in 2010, although it also had a negligible structural deficit. Estonia and Switzerland are the only other OECD member countries with available data which had positive fiscal balances in 2010.

To improve fiscal discipline, many countries have adopted fiscal rules which require balanced budgets. Additionally, budget practices such as the use of medium-term expenditure frameworks that include targets or ceilings for spending can also help control excessive government spending.

Methodology and definitions

Data on both general government financial balances and GDP are drawn from the *OECD Economic Outlook Database*, No. 89 (Preliminary Version).

Financial balances include one-off factors, such as those resulting from the sale of the mobile telephone licenses, but exclude most financial transactions. As data follow the *System of National Accounts* (SNA), government financial balances may differ from the numbers reported to the European Commission under the Excessive Deficit Procedure for some EU countries. The underlying balances, or structural balances, are adjusted for the cycle and one-offs. For more details, see *OECD Economic Outlook* "Sources and Methods" (*www.oecd.org/eco/sources-and-methods*).

Further reading

Anderson, B. and J.J. Minarik (2006), "Design Choices for Fiscal Policy Rules", *OECD Journal on Budgeting*, Vol. 2006/4, OECD Publishing, Paris, pp. 159-208.

OECD (2010), *OECD Economic Outlook*, Vol. 2011/1 (Preliminary Version), May 2011, OECD Publishing, Paris.

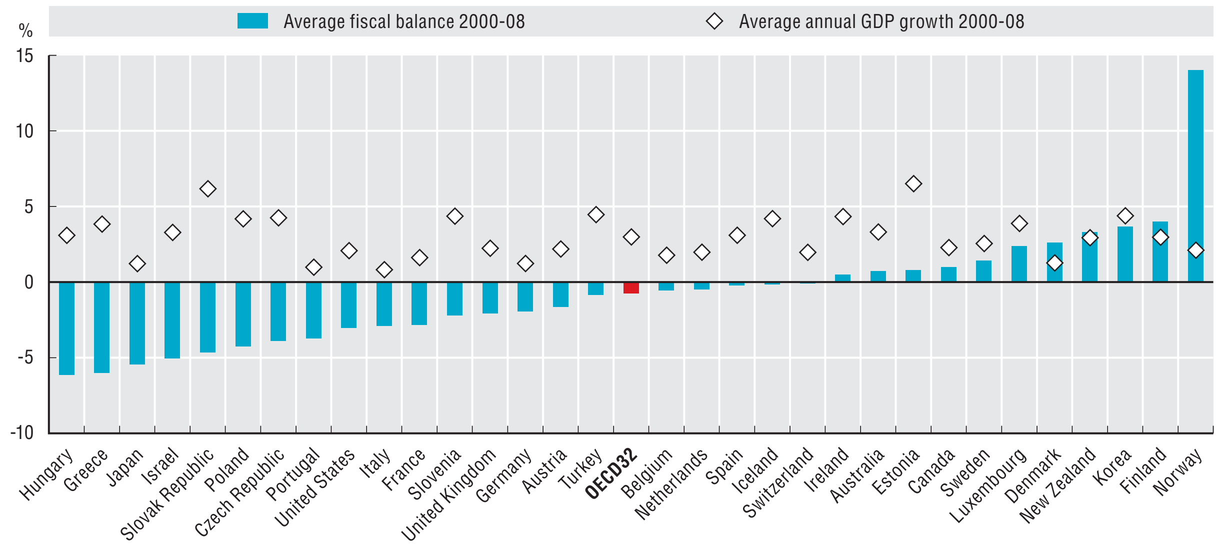
Figure notes

Data for Chile and Mexico are not available. OECD averages are unweighted.

12.2: Data for the Slovak Republic, Slovenia and Turkey are not available. Data for Norway are shown as a percentage of mainland potential GDP; the financial balances shown are adjusted to exclude net revenues from petroleum activities.

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

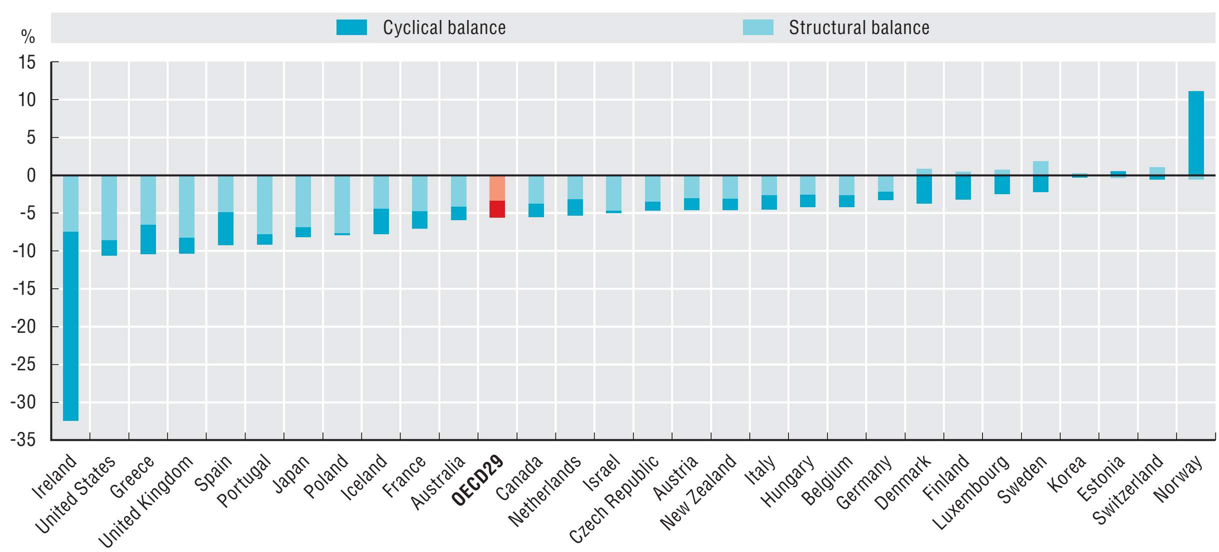
12.1 Average annual growth in GDP and average fiscal balance as a percentage of GDP (2000 to 2008)



Source: *OECD Economic Outlook*, No. 89 (Preliminary Version), May 2011.

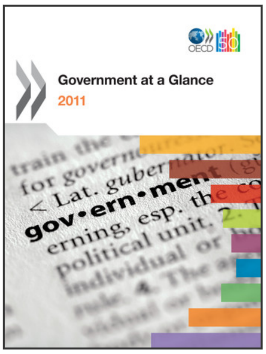
StatLink http://dx.doi.org/10.1787/888932390196

12.2 Decomposition of general government fiscal balances as a percentage of GDP (2010)



Source: *OECD Economic Outlook*, No. 89 (Preliminary Version), May 2011.

StatLink http://dx.doi.org/10.1787/888932390215



From:

Government at a Glance 2011

Access the complete publication at:

https://doi.org/10.1787/gov_glance-2011-en

Please cite this chapter as:

OECD (2011), “Government deficits/surpluses”, in *Government at a Glance 2011*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/gov_glance-2011-18-en