General government structural balance

The structural or underlying fiscal balance is the difference between government revenues and expenditures corrected by the effects that could be attributed to the economic cycle and one off events. This indicator aims to capture structural trends in order to assess whether the fiscal policy of a country is expansionary, neutral or restrictive for a given period. In fact, government revenues and expenditures are highly sensitive to economic developments. For example, during an economic downturn, cyclical deficits result in lower revenues while at the same time public spending increase as higher unemployment determine additional spending on unemployment benefits. In consequence, eliminating the fluctuations occurred in the economies enable policy makers to identify the underlying trend of fiscal policies that are associated with the sustainability of public finances in the long run.

In 2013, the structural fiscal balance reached an average deficit of 3.5% as a share of potential GDP in OECD countries and decreased to an average of 3.1% in 2014. According to the latest available data Japan (-7.2%), the United Kingdom (-5.8%) and the United States (-4.2%) experienced the largest cyclically adjusted deficits. Oppositely, five OECD countries; Luxembourg (2.1%), Estonia (1.9%), New Zealand (1.5%), Greece (1.3%) and Denmark (1.1%) reported structural surpluses above 1% of potential GDP. In the case of Greece it is worth mentioning the reverted structural balance recorded in 2013 as compared to the previous years of continuous structural deficits. In fact, for this country after six years of deep recession and major consolidation efforts growth is projected to return to a positive trend if structural reforms continue and debt levels are prudently managed (OECD 2014).

Between 2007 and 2014 the structural deficit increased by 0.2 p.p. on average across OECD countries. However, this underlying balance experienced movements in opposite directions during this time period. Between 2013 and 2014 the average deficit decreased by 0.4 p.p. while between 2007 and 2013 it increased by 0.6 p.p. although recovering substantially compared to the 2009 peak deficit of 7.1% of the potential GDP reached as the result of the effects of the crisis. Between 2007 and 2009 the structural fiscal situation deteriorated the most in Iceland (11.5 p.p.), Spain (9.7 p.p.), the United States (5.6 p.p.), New Zealand (5.4 p.p.), Australia (5.2 p.p.), Ireland (5.1 p.p.) and Greece (5.0 p.p.).

It is important to notice that the differences between the underlying balance and the net lending/borrowing (fiscal balance) could be remarkable. For example in 2013 Greece reported an underlying balance with a surplus of 3.5% as a share of potential GDP, whereas the corresponding fiscal balance experienced a deficit of 12.3% as share of GDP, the difference between both indicators was due to a combination of cyclical components and one off factors as the capitalisation of a fund to rescue the banking sector (see indicators on General government fiscal balance and General government net saving).

Across OECD countries, the projections of the structural balance as a share of potential GDP display a diminishing trend for deficits, reaching an average of 2.7% and 2.3% as a share potential GDP in 2015 and 2016 respectively. As economic growth strengthens and fiscal consolidation continues to ease, temporary cyclical obstacles hampering the recovery could be removed, under this scenario the decreasing trend in structurally adjusted deficits is expected to continue (OECD, 2014).

Methodology and definitions

Data are drawn from the *OECD Economic Outlook*, No. 97 (database).

The structural fiscal balance, or underlying balance, represents the fiscal balance as reported in the *System of National Accounts* (SNA) framework adjusted for two factors: the state of the economic cycle (as measured by the output gap) and one-off fiscal operations. The output gap measures the difference between actual and potential GDP, the latter being an estimate of the level of GDP that would prevail if the economy were working at full capacity. Potential GDP is not directly observable and estimates are subject to substantial margins of error. One-off factors include both exceptional and irregular fiscal transactions as well as deviations from trend in net capital transfers. For more details, see *OECD Economic Outlook* "Sources and Methods" (*www.oecd.org/eco/sources-and-methods*).

Further reading

OECD (2015), *OECD Economic Outlook*: Vol. 2015/1 (Preliminary version), OECD Publishing, Paris, *http://dx.doi.org/10.1787/eco_outlook-v2015-1-en*.

Figure notes

Data for Chile, Mexico, the Slovak Republic and Turkey are not available. OECD unweighted average is not presented.

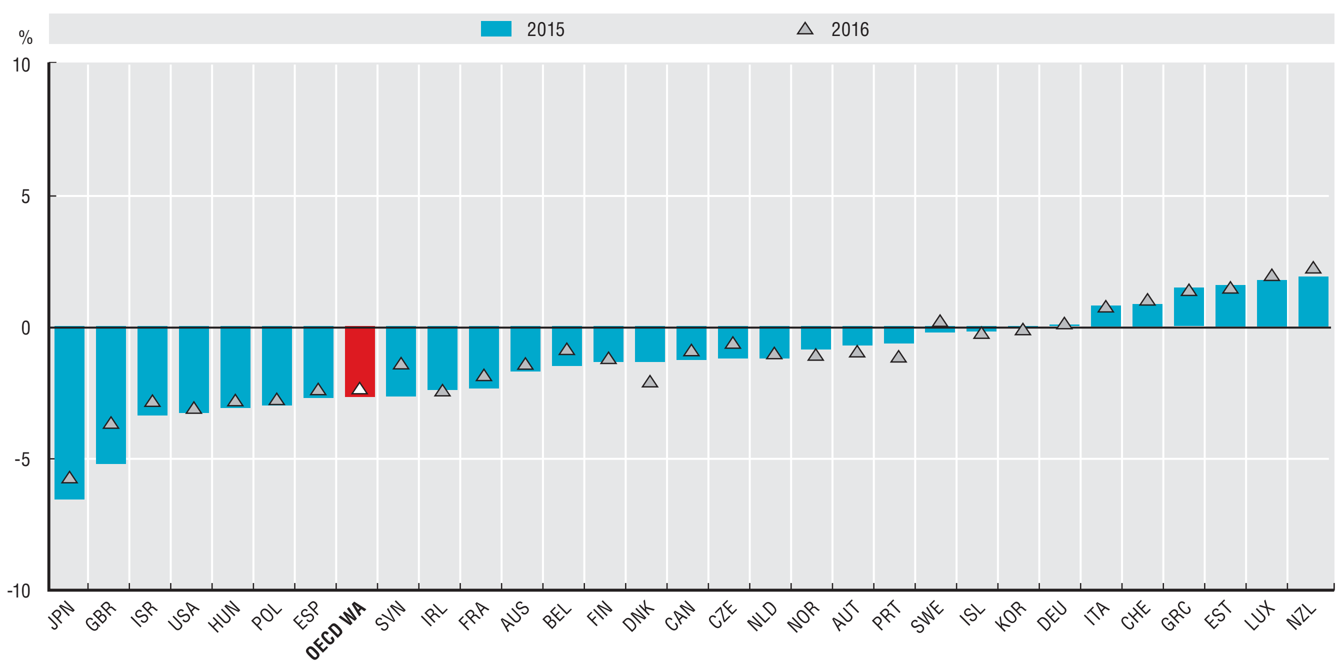
Information on data for Israel: *http://dx.doi.org/10.1787/888932315602*.

2.6. General government structural balance as a percentage of potential GDP, 2007, 2009, 2013 and 2014

Source: *OECD Economic Outlook*, No. 97 (Preliminary version), May 2015.

StatLink http://dx.doi.org/10.1787/888933248109

2.7. General government projected structural balance as a percentage of potential GDP in 2015 and 2016



Source: *OECD Economic Outlook*, No. 97 (Preliminary version), May 2015.

StatLink http://dx.doi.org/10.1787/888933248116