

11. PUBLIC SPENDING

General government structural balance

The structural or underlying fiscal balance is the difference between government revenues and expenditures corrected for effects that could be attributed to the economic cycle and one-off events. Removing the effects of economic fluctuations from the figures enables policy makers to identify the underlying trends of economic aggregates and allows them to better assess the sustainability of public finances in the long run. Government revenues tend to decline during economic downturns, as incomes fall. At the same time, public spending tends to increase, as more people claim social assistance or unemployment benefits. Governments may also increase public expenditure to stimulate the economy. All these effects were visible during the COVID-19 pandemic. The structural balance is a measure of the budget balance a government would have with its current policies if the economy was operating at its full potential (“potential GDP”).

In 2022, the average general government structural balance across OECD countries was -3.5% of potential GDP, the same value as in 2019 (Figure 11.20). Denmark (2.1%), Finland (0.1%), Ireland (1.2%), Luxembourg (0.4%), Norway (0.1%) and Switzerland (0.8%) reported structural surpluses in 2022. Between 2021 and 2022 the average general government structural deficit decreased by 3.3 percentage points, from an average deficit of 6.8% of potential GDP in 2021. Over that period, structural deficits decreased the most in the United States (7.7 p.p.), Estonia (4.7 p.p.) and the Slovak Republic (3.4 p.p.).

The general government structural primary balance is the primary balance adjusted for the impact of net interest payments on general government liabilities (i.e. interest payments minus interest receipts). In 2021 the average structural primary balance in OECD countries amounted to -5.2% of potential GDP, improving to -1.6% in 2022 (Figure 11.21). In the period 2007-22 the average level of structural primary deficit across OECD countries peaked in 2020 at 5.7% of potential GDP (see Online Figure G.6.10). The 2020 value records the structural deterioration of economic conditions resulting from the COVID-19 pandemic that triggered economic changes, such as an uptick on spending and supply chain disruptions (OECD, 2021).

By 2024, the average structural primary balance is projected to be closer to equilibrium at -0.5% of potential GDP (Figure 11.22). The greatest improvements in the structural primary balance between 2022 and 2024 are forecast to be the highest in Hungary (5.0 p.p.), Austria (2.5 p.p.),

Latvia (2.4 p.p.) and Germany (2.2 p.p.). While the economic outlook is still fragile, this positive trend is driven by positive expectations of businesses and consumers, weak but positive economic growth, food and energy prices starting to decrease and an overall mitigation of inflationary trends (OECD, 2023).

Methodology and definitions

Data are derived from the OECD Economic Outlook, No.113 (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. 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 Sources and Methods of the OECD Economic Outlook (www.oecd.org/eco/outlook/sources-and-methods.htm).

Further reading

OECD (2023), *OECD Economic Outlook, Interim Report March 2023: A Fragile Recovery*, OECD Publishing, Paris, <https://doi.org/10.1787/d14d49eb-en>.

OECD (2021), “Global value chains: Efficiency and risks in the context of COVID-19”, *OECD Policy Responses to Coronavirus (COVID-19)*, OECD Publishing, Paris, <https://doi.org/10.1787/67c75fdc-en>.

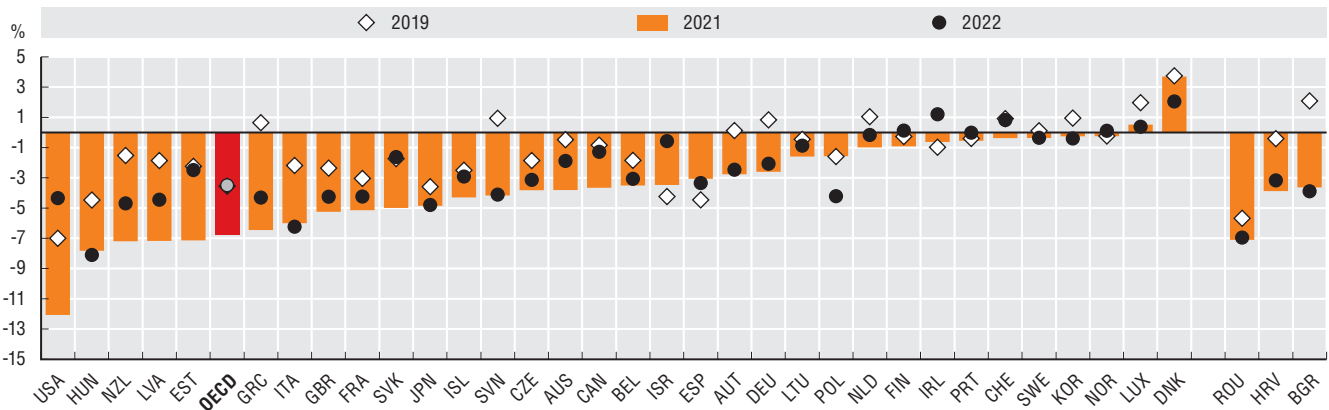
Guillemette, Y. and D. Turner (2021), “The long game: Fiscal outlooks to 2060 underline need for structural reform”, *OECD Economic Policy Papers*, No. 29, OECD Publishing, Paris, <https://doi.org/10.1787/a112307e-en>.

Figure notes

Data for Chile, Colombia, Costa Rica, Mexico and Türkiye are not available.

G.6.10 (General government structural primary balance as a percentage of potential GDP, OECD and largest OECD economies, 2007 to 2024) is available online in Annex G.

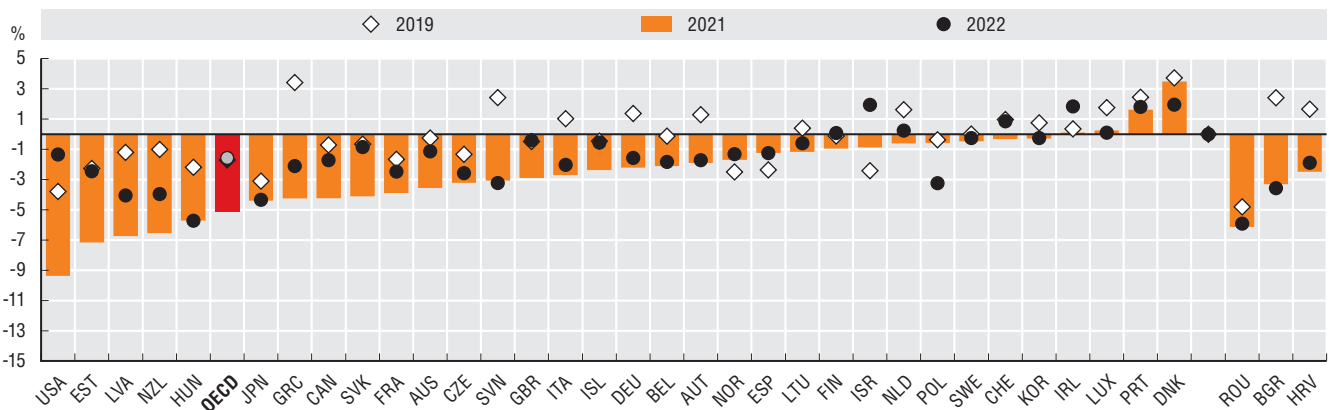
11.20. General government structural balance as a percentage of potential GDP, 2019, 2021 and 2022



Source: OECD Economic Outlook, No 113, June 2023.

StatLink <https://stat.link/2sa813>

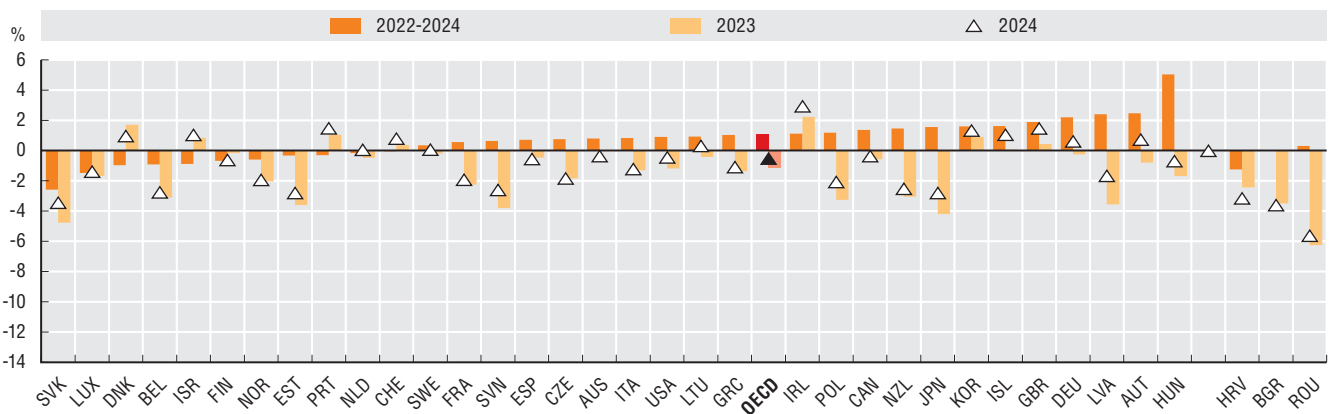
11.21. General government structural primary balance as a percentage of potential GDP, 2019, 2021 and 2022



Source: OECD Economic Outlook, No 113, June 2023.

StatLink <https://stat.link/ceu76n>

11.22. Projected general government structural primary balance as a percentage of potential GDP in 2023 and 2024, and projected change between 2022 and 2024



Source: OECD Economic Outlook, No 113, June 2023.

StatLink <https://stat.link/pu4dex>



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