

11. PUBLIC SPENDING

Government investment spending

Public investment can enhance productivity and promote economic growth, foster societal wellbeing, and support long-term policies. Government expenditures can be considered investments if they are directed towards durable assets like transport and energy infrastructure, healthcare and education facilities, IT systems, defence systems, and intangible assets such as research and development. Government investment often includes purchases needed to implement long-term policies, such as promoting sustainable development by investing in green energy infrastructure.

Across OECD countries, government investment spending averaged 3.4% of GDP in 2021, ranging from 6.6% of GDP (and 6.9% in 2022) in Hungary to 1.7% in Mexico. Investment rose in 22 of 38 countries between 2019 and 2021, with an overall average increase across all OECD countries of 0.1 p.p. of GDP. The largest increases were in Greece (1.2 p.p.), Portugal (0.9 p.p.), Slovenia (0.8 p.p.) and Iceland (0.7 p.p.). In 2022, across the OECD-EU countries investment amounted to 3.3% of GDP. In 9 of these countries plus Canada, public investment rose between 2021 and 2022. The largest increase relative to GDP was in Slovenia (0.7 p.p.) (Figure 11.14). Government investment represented 15% of total investment on average across OECD countries in 2021 (Online Figure G.6.8).

Investment spending as a share of total government spending provides a measure of the relative importance of capital formation in overall expenditures. It averaged 7.4% of total spending in 2021, down from 8.1% in 2019. Israel and Colombia experienced the largest decreases in investment as share of total spending over this period (3.5 p.p. and 2.8 p.p. respectively). However, this share increased between 2021 and 2022 in 22 out of the 26 countries with data for both years. The largest rises were in Slovenia (2.4 p.p.), Canada (1.5 p.p.), Austria (1.4 p.p.) and Ireland and the Slovak Republic (both 1.0 p.p.) (Figure 11.15).

The distribution of investment expenditure across levels of government varies considerably, especially between federal and unitary countries. In 2021, on average across OECD countries, 42.6% of government investment was carried out by central government, while 28.5% was conducted by state and 28.3% by local governments. In 23 out of 37 OECD countries, central government accounted for over half of government investment. Typically, government investment in non-federal countries is predominantly carried out by central government, as in Chile (88.6%), Türkiye (86.9%), Hungary (79.8%) and the United Kingdom (71.2%). In highly decentralised or federal countries, it is primarily carried out by state and, to a lesser extent, local governments. For example in Canada the shares are 4.9% central, 54.1% state and 41.0% local government; in Belgium 23.5%, 51.8% and 24.1%; and in Mexico 29.4%, 39.4% and 28.2%. Between 2021 and 2022, central government's share of investment expenditure grew in 17 of the 26 OECD countries with available data (Figure 11.16).

Methodology and definitions

Data are 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 2008 SNA framework has been implemented by all OECD countries (see Annex C). General government investment includes gross capital formation and acquisitions, less disposals of non-produced nonfinancial assets. Gross fixed capital formation (also called fixed investment) is the main component of investment. For government, it mainly consists of transport infrastructure but also includes infrastructure such as office buildings, housing, schools and hospitals. In the SNA 2008 framework, expenditures in research and development have also been included in fixed investment. Government investments together with capital transfers constitute the category of government capital expenditures. Government consists of central, state and local governments and social security funds. State government is only applicable to the nine OECD countries that are federal states: Australia, Austria, Belgium, Canada, Germany, Mexico, Spain (considered a quasi-federal country), Switzerland and the United States.

Further reading

OECD (2022), "Policy guidance on market practices to strengthen ESG investing and finance a climate transition", *OECD Business and Finance Policy Papers*, No. 13, OECD Publishing, Paris, <https://doi.org/10.1787/2c5b535c-en>.

OECD (2019), *Effective Multi-level Public Investment: OECD Principles in Action*, OECD, Paris, www.oecd.org/effective-public-investment-toolkit/Full_report_Effective_Public_Investment.pdf.

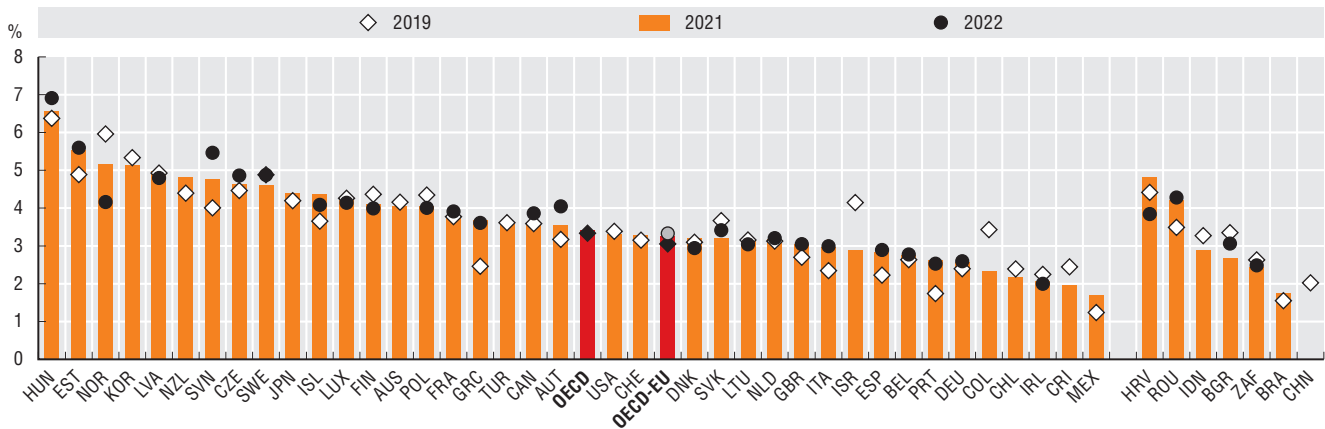
Figure notes

11.14. and 11.15. Data for Chile and Türkiye and are not included in the OECD average. Data for Türkiye, Brazil and Indonesia are for 2020 rather than 2021.

11.16. Data for Colombia are not available. Data for Chile and Türkiye are not included in the OECD average. Local government is included in state government for Australia and the United States. Australia does not operate government social insurance schemes. Social security funds are included in central government in New Zealand, Norway, the United Kingdom and the United States. Data for Türkiye and Indonesia are for 2020 rather than 2021.

G.6.8 (Government investment as a share of total investment, 2019 and 2021) and G.6.9 (Structure of general government investment by function, 2021) are available online in Annex G.

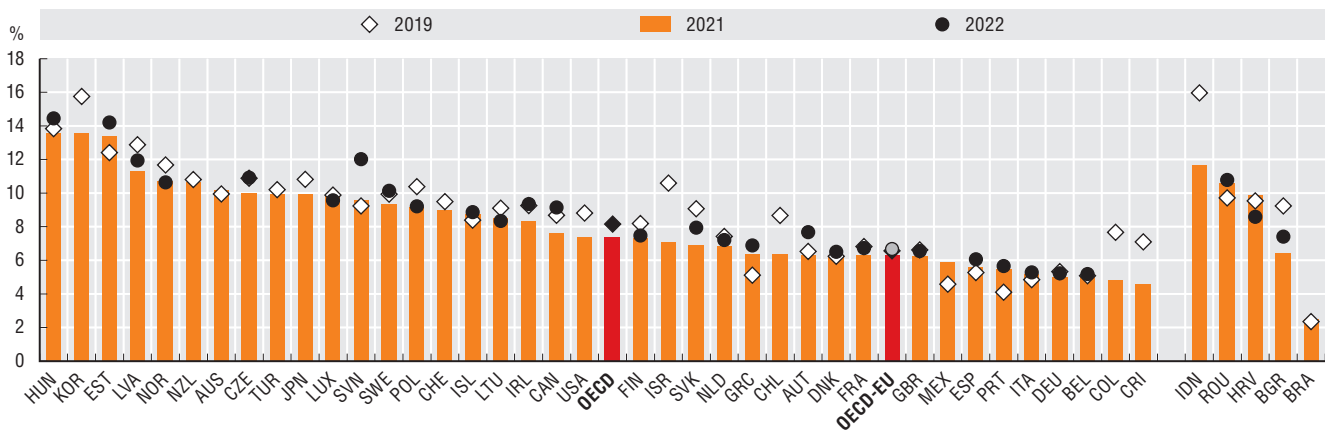
11.14. Government investment as percentage of GDP, 2019, 2021 and 2022



Source: OECD National Accounts Statistics (database).

StatLink <https://stat.link/1h85ot>

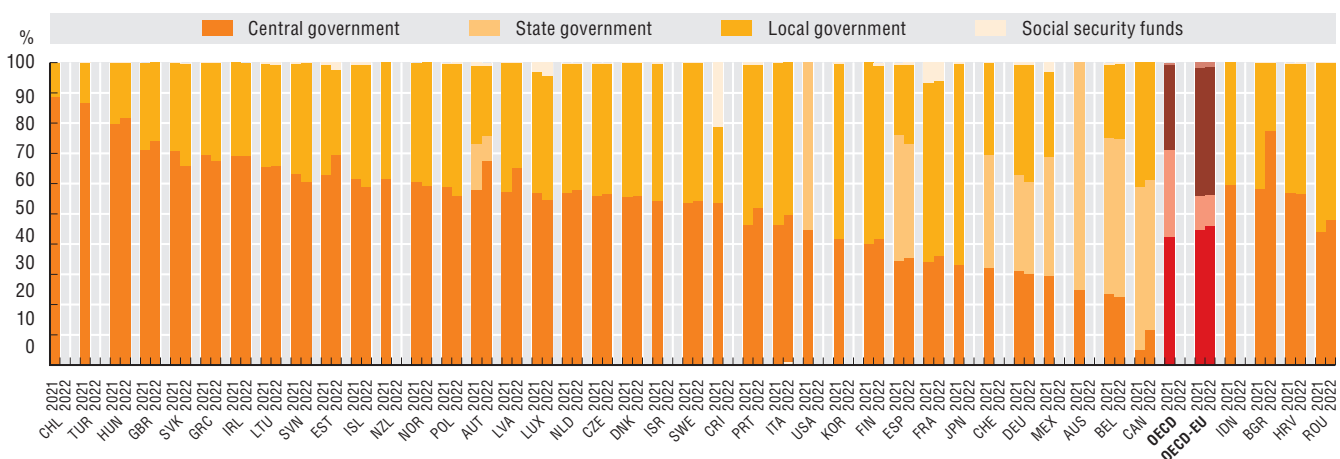
11.15. Government investment as a share of total government expenditures, 2019, 2021 and 2022



Source: OECD National Accounts Statistics (database).

StatLink <https://stat.link/1f2axe>

11.16. Distribution of investment spending across levels of government, 2021 and 2022



Source: OECD National Accounts Statistics (database).

StatLink <https://stat.link/anwz95>



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