

General government fiscal balance

The fiscal balance is the difference between a government's revenues and its expenditures. It shows the extent to which expenditure in a given year is financed by the revenues collected in that year. When the government spends more than it collects as revenues, it has a fiscal deficit; when it spends less, it has a fiscal surplus. The primary balance is the fiscal balance excluding net interest payments on public debt. That is, the primary balance is the difference between the amount of revenue a government collects and the amount it spends on providing public goods and services. A country has a primary deficit if it is spending more on public goods and services than it collects in taxes. This means the government must borrow money to pay for the everyday public goods and services it provides for citizens, which may not be sustainable. The primary balance is thus a critical indicator of the short-term sustainability of a government's finances.

The average general government fiscal balance in OECD countries reached -8.7% of GDP in 2009 due to the 2007-08 economic crisis. In its aftermath, fiscal deficits gradually fell, reaching an average of -3.2% of GDP in 2019. Of 26 OECD countries for which data are available for 2020, all had budget deficits, and all of them were larger than in 2019; 18 of them had deficits of more than -5% of GDP. This large increase in fiscal deficits was a necessary response to the COVID-19 crisis, and allowed governments to spend large amounts on health, income support and other measures to support citizens and businesses. Deficits also increased due to economies and tax revenues shrinking with the enforced closure of many economic activities. Among the 26 OECD countries with data available, the largest fiscal deficit in 2020 was in the United Kingdom (-12.3% of GDP) and the smallest was in Denmark (-1.1% of GDP). Denmark entered the crisis with the second highest fiscal surplus in the OECD, after Norway, and has been able to supply significant fiscal support while still maintaining a moderate deficit. Canada had the largest deterioration in its fiscal balance in 2020 (-11.2 percentage points of GDP), and Sweden the smallest (-3.7 p.p.) (Figure 2.1).

Primary deficits also grew sharply in 2020. In 2019, the average primary balance across OECD members was -1.2% of GDP, although 23 of 36 OECD countries had a primary surplus. All of the 26 OECD countries with data available for 2020 had primary deficits, and all had a worse primary balance than in 2019. For 16 of them, the primary deficit was more than -5% of GDP. This indicates that in 2020, governments were borrowing money to pay for some of the goods and services they were providing to citizens and businesses, including their COVID-19 responses. While the crisis is ongoing, governments should not cut back on necessary support but large primary deficits are unlikely to be sustainable over the longer term, as they will lead to increasing public debt. Governments will eventually need to make choices on spending and taxes in order to return to a primary surplus or neutral position. As with fiscal

deficits, the United Kingdom had the largest primary deficit in 2020 (-10.7% of GDP) and Denmark the smallest (-1.3%). The largest deterioration in primary balance in 2020 was in Canada (-11.2 p.p. of GDP) and the smallest in Sweden (-3.7 p.p.) (Figure 2.2).

Methodology and definitions

Fiscal balance data are derived 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 A for details on reporting systems and sources). 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 government revenues minus total government expenditures. Revenues encompass taxes, net social contributions, and grants and other revenues. Expenditures comprise intermediate consumption, compensation of employees, subsidies, property income (including interest spending), social benefits, other current expenditures (mainly current transfers) and capital expenditures (i.e. capital transfers and investments).

The primary balance is the fiscal balance excluding net interest payments on general government liabilities (i.e. interest payments minus interest receipts). Gross domestic product (GDP) is the standard measure of the value of goods and services produced by a country during a period.

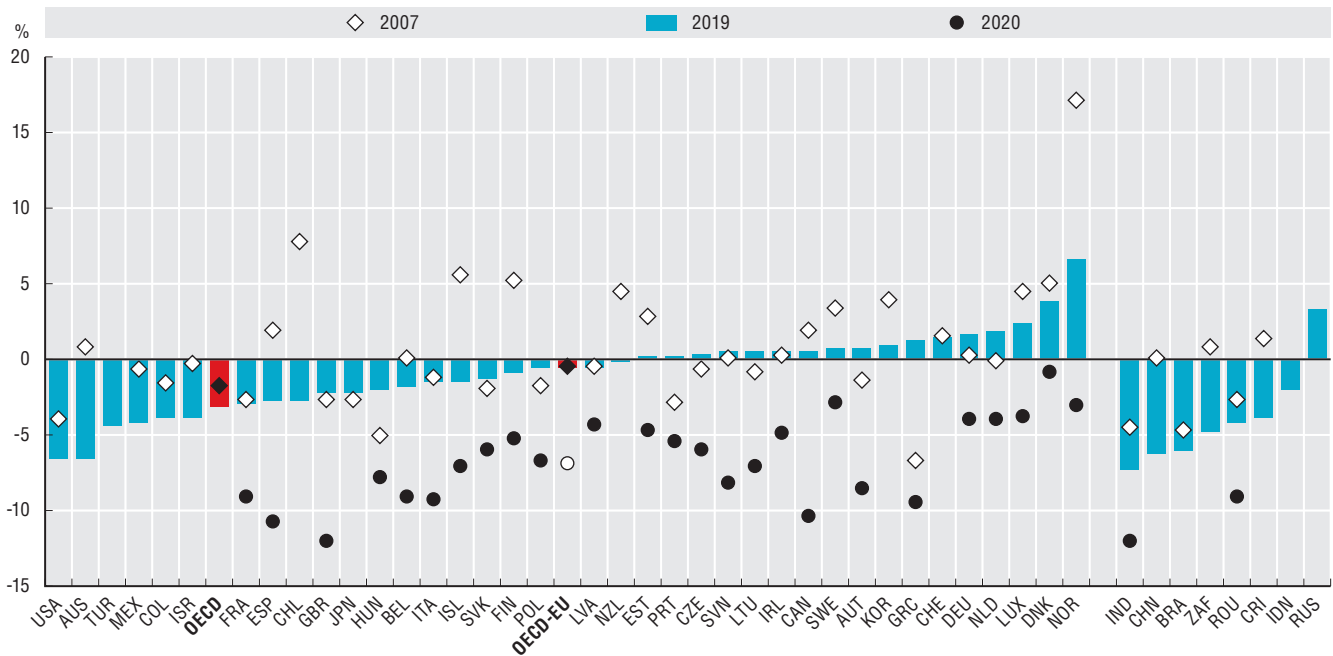
Further reading

- OECD (2021), *OECD Economic Outlook, Interim Report March 2021*, OECD Publishing, Paris, <https://doi.org/10.1787/34bfd999-en>.
- IMF (2021), *Fiscal Monitor April 2021*, International Monetary Fund, Washington, DC, www.imf.org/en/Publications/FM/Issues/2021/03/29/fiscal-monitor-april-2021.

Figure notes

- Data for Japan, Brazil and Russia are for 2018 rather than 2019.
- 2.1. Data for Chile and Turkey are not included in the OECD average because of missing time series or main non-financial government aggregates.
- 2.2. Data for Chile are not available. Data for Turkey are not included in the OECD average because of missing time series.

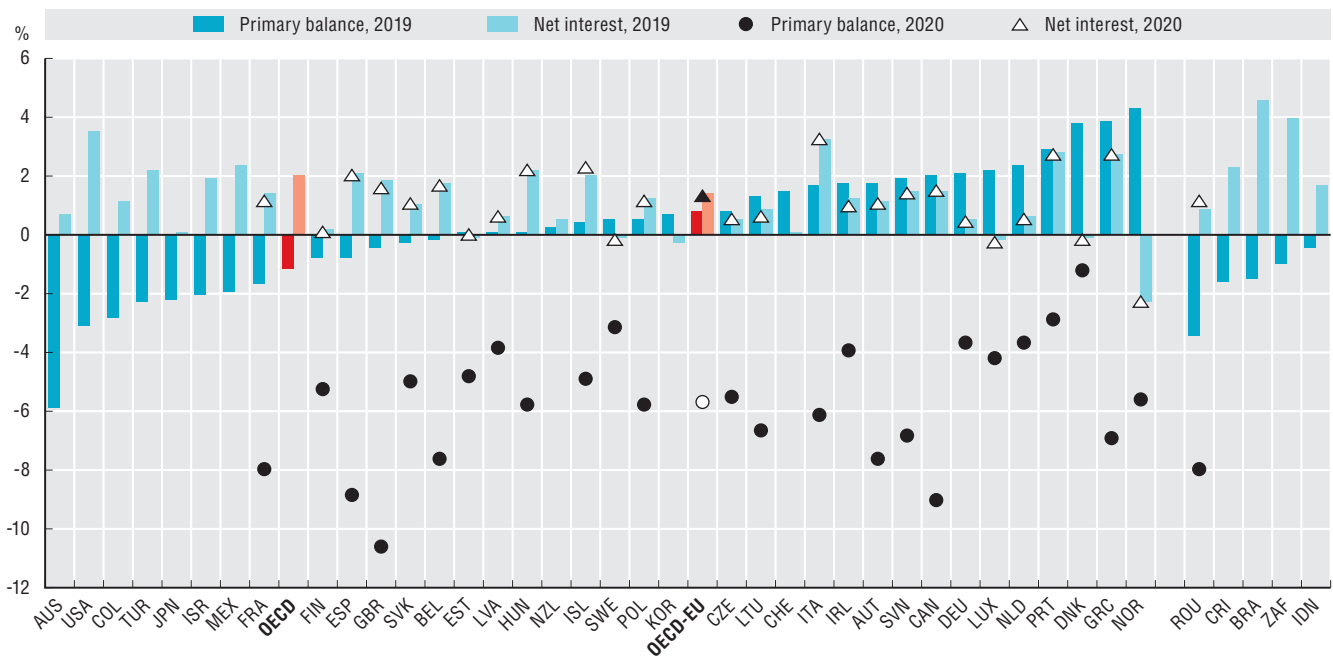
2.1. General government fiscal balance as a percentage of GDP, 2007, 2019 and 2020



Source: OECD National Accounts Statistics (database). Data for China and India are from the IMF Economic Outlook (April 2021).

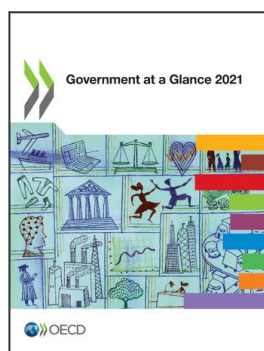
StatLink <https://doi.org/10.1787/888934256634>

2.2. General government primary balance and net interest spending as a percentage of GDP, 2019 and 2020



Source: OECD National Accounts Statistics (database).

StatLink <https://doi.org/10.1787/888934256653>



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