

### General government fiscal balance

Fiscal balance, referring to the difference between government revenues and expenditures, shows to the extent to which the government expenditure is financed by the revenues collected in a given year. There is a deficit when the government spends more than it receives as revenues; and in the opposite case, there is a surplus. The primary balance, or the overall fiscal balance excluding net interest payments on public debt, is one critical indicator of short-run sustainability.

OECD countries reported an average deficit level of 2.2% in terms of GDP in 2017. The average general government fiscal balance in OECD countries reached the highest level of deficit in 2009 (8.7% of GDP) due to the 2007-08 economic crisis. In its aftermath, fiscal deficits remained comparatively high, but slowly and gradually decreased to the current level. In 2017, more than one-third of OECD countries reported a fiscal surplus, with Norway reporting the largest surplus of 4.9% of GDP followed by Korea (2.8% of GDP). In contrast, the general government fiscal balance in the following countries reported the largest deficits in 2017: the United States (4.1%), Spain (3.1%) and Portugal and Japan (both 3.0%). In the majority of countries where data are available for 2018, the general government fiscal balance improved compared to 2017 – the largest change happened in Portugal (+2.5 p.p.) yet still running a deficit, and Norway (+2.3 p.p.). In the case of Portugal, it is due to the increase in current revenue, particularly tax revenue and social contributions, explained to a large extent by the evolution of the economic activity and employment, combined with the fact that in 2017 the fiscal balance was negatively impacted by a one-off operation related to the recapitalization of a public financial institution. In the case of Norway, despite comparatively low oil prices, this value is a testimony of policies that insulate the country from volatile petroleum markets such as making the fiscal rule more prudent, aiming at structural non-oil deficits equivalent to 3% of the value of the wealth fund rather than 4% (OECD 2018).

Consecutive deficits lead to mounting debt level, which in turn entails higher interest payments and thus put upward pressure on deficits. The primary balance illustrates the extent to which governments can honour their debt obligations without the need for further indebtedness. In 2017, almost three-fourths of OECD countries reported a surplus in primary balance in 2017, with the largest primary surplus in Greece (3.6%) resulting from large fiscal consolidation, which has strengthened credibility and reduced uncertainty that is helping to restore economic growth. In the same period, the largest primary deficit was reported in Japan (2.7%) explained by lower than expected growth, repeated supplementary budgets and delays in raising the consumption tax as planned. Overall, Japan needs a comprehensive fiscal consolidation plan including

specific spending cuts and tax increases, as well as an improved fiscal framework to ensure implementation of the plan (OECD 2019)

#### 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 (2019), *OECD Economic Surveys: Japan 2019*, OECD Publishing, Paris. <https://doi.org/10.1787/fd63f374-en>

OECD (2018), *OECD Economic Surveys: Norway 2018*, OECD Publishing, Paris. [http://doi.org/10.1787/eco\\_surveys-nor-2018-en](http://doi.org/10.1787/eco_surveys-nor-2018-en)

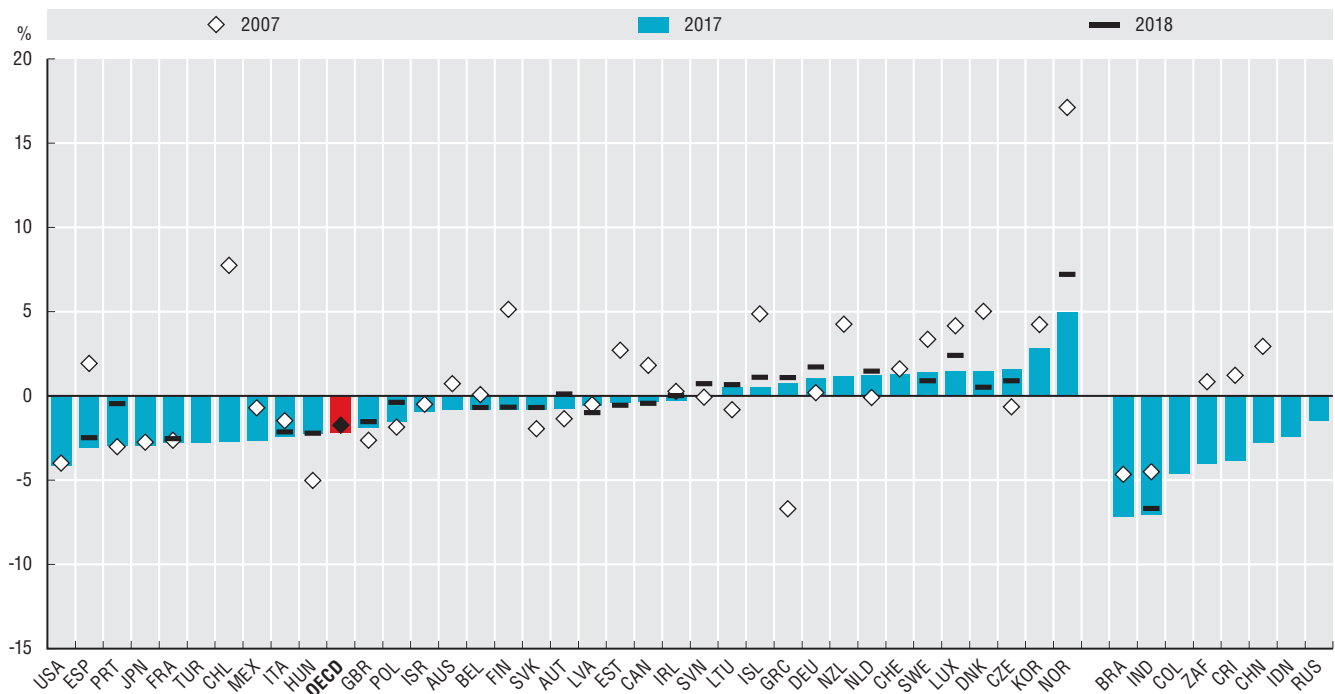
#### Figure notes

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

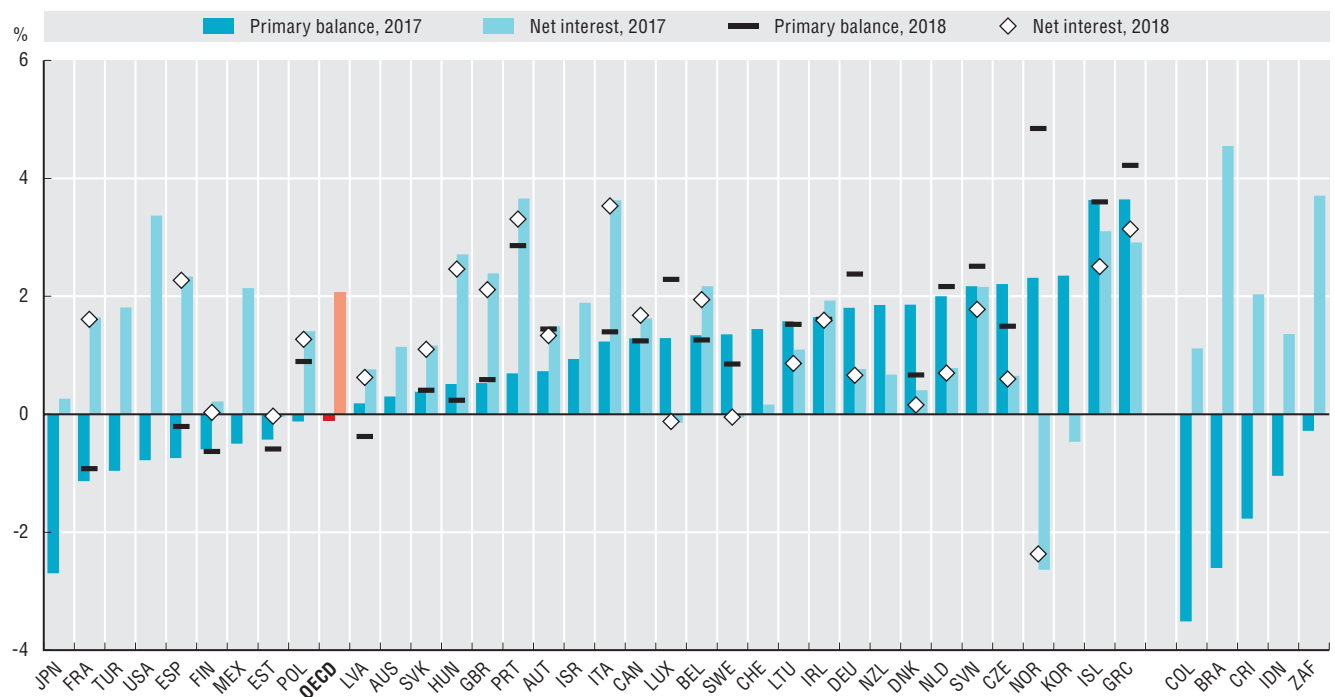
2.1. Data for Chile and Turkey are not included in the OECD average due to missing time series or main non-financial government aggregates. Data for Brazil, China and Indonesia are for 2016 rather than 2017. Data for Russia are for 2015 rather than 2017.

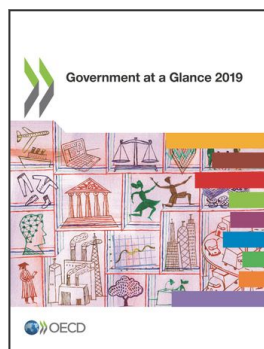
2.2. Data for Chile are not available. Data for Turkey are not included in the OECD average due to missing time series. Data for Brazil and Indonesia are for 2016 rather than 2017.

## 2.1. General government fiscal balance as a percentage of GDP, 2007, 2017 and 2018

StatLink <https://doi.org/10.1787/888934031294>

## 2.2. General government primary balance and net interest spending as a percentage of GDP, 2017 and 2018

StatLink <https://doi.org/10.1787/888934031313>



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