General government net saving

Net saving is the difference between current revenues and current expenditures. It is the fiscal balance without taking into account capital expenditures, such as investment expenditure or capital transfers. Net saving is associated with the "golden rule" of public finance, which advocates that, over the course of an economic cycle, current expenditures should be fully paid for by current revenues. This rule implies that public debt should only be issued to pay for investments which promote growth. Operating in accordance with this rule helps governments maintain a sustainable fiscal stance.

In 2019, 21 of 36 OECD countries recorded positive general government net savings, although the OECD average was -2.3% of GDP. Net savings worsened substantially in 2020. Among the 26 OECD countries for which data are available, 24 had negative net savings in 2020, and all had lower net savings than in 2019. This sharp fall was due to high levels of current expenditure and falling tax revenues caused by the COVID-19 crisis. Among countries with data available, the United Kingdom (-10.4% of GDP) and Spain (-10.1% of GDP) had the lowest net savings rates in 2020. Only Denmark (1% of GDP) and Norway (0.1% of GDP) recorded positive net savings. These were the two countries with the highest net savings in 2019, and both were able to maintain positive net savings in 2020 while still providing sizeable fiscal policy responses to COVID-19 (Figure 2.3). Denmark entered the crisis on a strong economic footing. Norway maintains a fiscal rule under which revenues from offshore petroleum production (i.e. withdrawals from the Norwegian Wealth Fund) can only cover the non-oil budget deficit up to a ceiling. COVID-19 has been a major shock to public finances, and, as with fiscal balances, it is appropriate to maintain negative net savings in order to fund the crisis response. However, maintaining the golden rule over the course of the economic cycle implies future net savings will be needed to offset the resulting net dissaving.

The difference between government net savings and government net lending/borrowing (i.e. the fiscal balance) indicates the size of general government capital expenditures. These may be either government investment expenditures or outflows caused by capital transfers, e.g. to publicly owned enterprises or financial institutions. In 2019, average national savings in OECD countries were -2.3% of GDP, while the average budget deficit was -3.2% of GDP. This implies average government capital expenditures across the OECD were 0.9% of GDP. In 2020, 23 out of 26 countries for which data are available are estimated to have increased national investment (Figure 2.4). This is not necessarily a reaction to COVID-19. Some of the increase may reflect extra investment in infrastructure in critical areas, such as health or IT, or spending to stimulate the economy. However, it is likely that some of the apparent increase is due to public investment levels being held constant in 2020 while GDP fell (for instance if governments were partway through multi-year investment projects, such as major infrastructure projects), or because investment simply fell more slowly than GDP.

Methodology and definitions

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). Using SNA terminology, general government consists of central government, state government, local government and social security funds.

Government net saving represents current revenues minus current expenditures including depreciation. In the case of gross saving, the costs of depreciation have not been deducted from current expenditures. Gross saving plus net capital transfers (i.e. capital transfers received minus those paid) minus gross investments (i.e. gross capital formation and acquisitions less disposals of non-produced non-financial assets) equals the fiscal balance of net lending/borrowing. Net lending/borrowing reflects the fiscal position after accounting for capital expenditures: net lending, or a government surplus, means that government is providing financial resources to other sectors, whereas net borrowing, or a government deficit, means that government on balance requires financial resources from other sectors to finance part of its expenditures. Compared to net lending/borrowing, net saving has the advantage of avoiding possible one-off distortions coming from extraordinary and possibly very large capital transfers. It also avoids putting too much pressure on government investments in times of austerity programmes and increasing deficits.

Further reading

OECD (2019), *OECD Economic Surveys: Denmark 2019*, OECD Publishing, Paris, *https://doi.org/10.1787/eco_surveys-dnk-2019-en*.

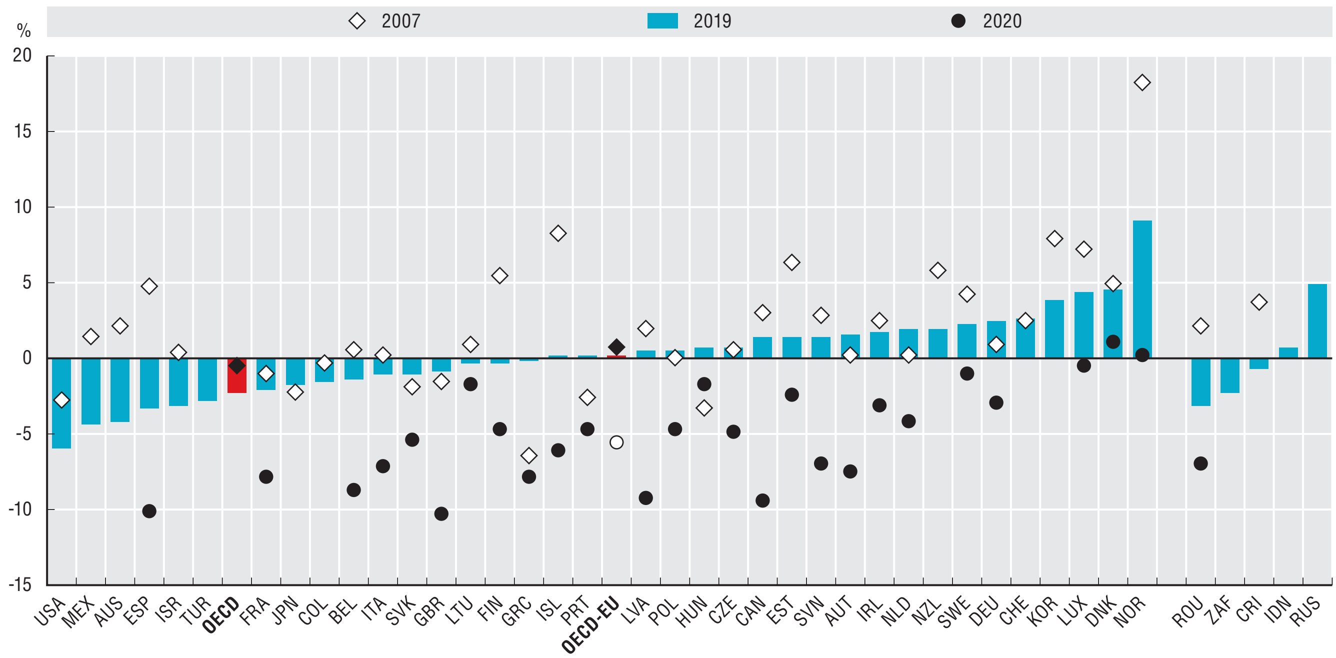
OECD (2019), *OECD Economic Surveys: Norway 2019*, OECD Publishing, Paris, *https://doi.org/10.1787/c217a266-en*.

Figure notes

Data for Chile are not available. Data for Turkey are not included in the OECD average because of missing time series. Data for Japan and Russia are for 2018 rather than 2019.

G.1. (Net capital transfers as a percentage of GDP, 2007, 2019 and 2020) is available online in Annex G.

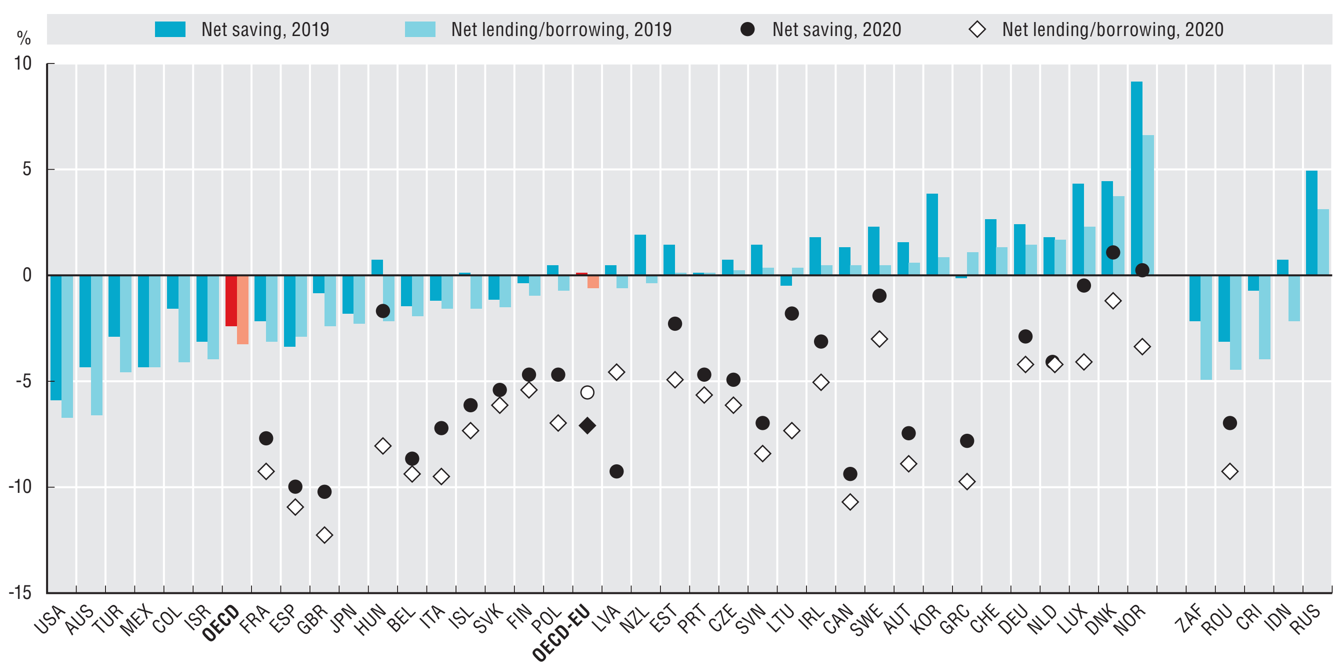
2.3. General government net saving as a percentage of GDP, 2007, 2019 and 2020



Source: OECD National Accounts Statistics (database).

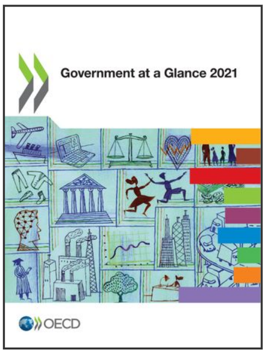
StatLink https://doi.org/10.1787/888934256672

2.4. General government net saving and fiscal balance as a percentage of GDP, 2019 and 2020



Source: OECD National Accounts Statistics (database).

StatLink https://doi.org/10.1787/888934256691



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