Executive summary

For most countries in the OECD, 2015 is the seventh or eighth year of dealing with the budgetary consequences of the economic and financial crisis precipitated in 2008. These years have been marked by challenges of fiscal retrenchment on a scale and nature unprecedented in modern times.

Previous OECD publications (OECD, 2011, 2012) have tracked the fiscal policy responses adopted by OECD countries during the early years of the crisis (2007-12). This publication takes stock of how these policy responses have evolved and been re-shaped over more recent years (up to 2014/15). Some key findings from the overall analysis are summarised below.

- **The public finances of almost all OECD countries have been badly affected by the crisis, but to widely varying degrees**. In general, public finance deficits across the OECD deteriorated from an average -1.5% of GDP in 2007 to -8.3% in 2009. While the scale of the fiscal shock has remained relatively stable in many countries (e.g. Estonia, Germany, Korea, Sweden), there have been particularly acute deficit swings in certain countries (e.g. Ireland, Slovenia, New Zealand), reflecting the fallout from banking crises and other one-off events.
- **The policy responses adopted by OECD countries have not been uniform**. Some OECD countries (e.g. Ireland, Portugal) that were acutely affected by the crisis responded with rigorous and sustained fiscal correction. Other countries (e.g. Finland, Netherlands and Sweden) relied upon fiscal buffers in the early stages and have been less quick to address underlying fiscal weaknesses. Still others (e.g. France, Hungary and Slovak Republic) have sought to chart an intermediate course that balances a range of objectives.
- **The health of each country's fiscal position at the outset of the crisis strongly determines its current fiscal circumstances**. The long-standing economic argument in favour of "counter-cyclical" budgetary policies is borne out by the data, which shows that the countries that allowed their public finances to run at significant deficit before the fiscal crisis have the greatest level of fiscal consolidation still ahead of them. Conversely, those countries that ran a surplus in advance of the crisis are now in a better position to face the future, and have managed to protect their citizens from the most severe consequences of the crisis. It is notable that five of the OECD's seven largest economies –the exceptions being Canada and Germany – were all running very high deficits before the crisis in 2007. The fact that so few OECD countries were running a fiscal surplus prior to the crisis suggests that the policy tools currently available do not provide the right incentives for doing so. The tools for aligning political incentives with fiscal policy imperatives, across both political and economic "cycles", appear to be lacking in many OECD countries.
- **The different models of "fiscal rules" frameworks have not coped uniformly well with the crisis**. The European Union's Stability and Growth Pact, with its complex and hard-to-enforce provisions, proved largely ineffective in protecting

countries from the effects of the fiscal crisis. In response, the European Union has further strengthened elements of the economic governance framework – at the cost, however, of making them even more complex. Simple and clear fiscal anchors – e.g. the Swiss and German debt brake rules – appear to have been more effective in influencing effective fiscal management.

- Most OECD countries have attempted to **shield economic growth** from the adverse effects of fiscal correction, using various approaches. Some countries have adopted structural economic reforms, including labour market liberalisation, deregulation and red-tape reduction, while still pursuing fiscal correction. Other countries have eschewed the full rigours of fiscal "austerity" and consciously allowed space for fiscal stimulus. Still others have sought to combine the different strategies (e.g. Canada, France, Japan and the United Kingdom), with varying results: relatively little impact in correcting public finances in most cases, but stronger overall growth in the economy in some cases.

- **Independent fiscal institutions** (IFIs) **have proliferated** across the OECD area in response to the crisis, with 25 OECD countries now having some such arrangements in place, compared with only 9 in 2008. The functions of such bodies vary widely, ranging from technical advisory functions, to promoting enhancing transparency and accountability through parliament. However, the effectiveness of such bodies, and the usefulness of the various alternative models for their operation and structure, will be tested during the economic recovery phase, which is already under way in some OECD countries.

- Most countries have stepped up their efforts to increase the **transparency and accessibility** of budget documents and data, including through web portals, tablet apps and "citizens' budgets". Only a small number of OECD countries (including Australia, France and New Zealand) have taken steps to engage either parliament or citizens more fully in the budget policy cycle. Austria, Canada and Ireland are among those pursuing intensive, broad-based **budget reform**, but most countries have focused on particular dimensions of budgeting rather than adopt a more holistic or integrated approach.

- **Payroll costs,** which amount on average to 23.6% of overall public expenditures in the OECD, provide an interesting case study of how fiscal consolidation has been applied in practice. Countries have tried to reduce these costs by reforming employment (downsizing) and remuneration systems. Such austerity-related human resource management (HRM) measures have given rise to both good and bad effects on workplace attitudes.

- **Sub-national budgeting** has been an important dimension of the overall fiscal consolidation picture. Many sub-national governments (SNGs) have limited ability to respond to fiscal pressures and shocks, and governments have adopted a range of strategies in response to this. "Rainy day funds" are one popular approach to insulating SNG finances from the vagaries of the economic cycle, and may hold lessons for fiscal management at the national level.

Public finance management during the crisis: Policy responses and impacts

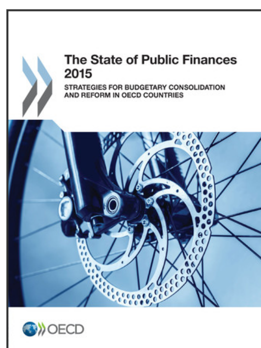
	fiscal Balances			fiscal consolidation			fiscal rules	status of IFI	support for economic growth	budget reform intensity	engaging parliament & citizens
	2007	*2009*	*2014*	*achieved 2009-2014*	*consolidation needs**	*planned 2015-16*					
Australia	1.9	-4.1	-2.2	▮▮	0		○	■		△	▷
Austria	-1.3	-5.3	-2.4	▮▮	▮▮▮▮	▮	●	■	◈	▲	-
Belgium	0.0	-5.5	-3.2	▮▮	▮▮▮▮	▮	●	■	◇	-	-
Canada	1.5	-4.5	-1.6	▮▮	▮▮▮▮	0	○	■	◈	▲	▷
Chile				0			○	□	◈	△	-
Czech Republic	-0.7	-5.5	-2.0	▮▮▮	▮	0	-	-	◈	-	▷
Denmark	5.0	-2.8	1.2	▮▮▮	▮▮▮		●	□	◆	△	-
Estonia	2.5	-2.2	0.6	▮▮	0	0	●	□	◇	-	-
Finland	5.1	-2.5	-3.2	0	▮▮▮▮	▮	●	□	◈	-	▷
France	-2.5	-7.2	-4.0	▮▮▮	▮▮▮▮	▮▮	◖	■	◆	△	-
Germany	0.3	-3.0	0.6	▮▮▮	▮	0	●	□	◈	-	▷
Greece	-6.7	-15.3	-3.6	▮▮▮▮	▮▮▮▮		●	□	◇		-
Hungary	-5.0	-4.6	-2.5	▮▮	▮▮▮▮	0	◖	■	◆	-	-
Iceland	5.1	-9.4	-0.2		0						
Ireland	0.3	-13.9	-4.1	▮▮▮▮	▮▮	0	●	■	◇	▲	▷
Israel	-0.6	-5.6	-3.7		▮▮▮						
Italy	-1.5	-5.3	-3.0	▮▮	▮▮▮▮	▮	◖	□	◆		▷
Japan	-2.1	-8.8	-7.7	▮	▮▮▮▮		○	-	ǂ	△	▷
Korea	4.2	-1.3	1.6	▮▮	0		○	■	◆	△	▷
Luxembourg	4.2	-0.5	0.6	▮	0	▮	●	□	-	-	▷
Mexico				0		▮	○	■	◆		
Netherlands	0.2	-5.5	-2.3	▮▮▮	▮▮▮	▮▮	●	■	◈	△	-
New Zealand	4.4	-2.9	1.4	▮▮▮	0	▮▮▮	○	-	◆	△	▷
Norway	17.1	10.3	9.1	0	0	0	●	-	-	-	-
Poland			-3.2	▮▮▮	▮▮	▮▮	●	-	◈	-	-
Portugal	-3.0	-9.8	-4.5	▮▮▮▮	▮▮▮▮	▮▮▮	●	■	◇	△	▷
Slovak Republic	-1.9	-7.9	-2.9	▮▮▮▮	▮▮	▮	●	■	◆	-	▷
Slovenia	-0.1	-6.1	-4.9	▮	▮▮▮▮	0	●	□	◈	-	-
Spain	2.0	-11.0	-5.8	▮▮▮▮	▮▮▮▮	▮▮▮	●	□	◇	△	▷
Sweden	3.3	-0.7	-1.9	0	▮	▮▮▮	●	■	-	-	-
Switzerland	0.9	0.8	0.2	0	0	▮	●	-	◈	-	-
Turkey				0			○	-	◈	△	-
United Kingdom	-3.0	-11.0	-5.3	▮▮▮▮	▮▮▮▮	▮▮▮	○	■	ǂ	△	▶
United States	-3.7	-12.8	-5.0	▮▮▮▮	▮▮▮▮	▮▮	○	■	ǂ	△	▷

LEGEND

- 0 no fiscal consolidation
- ▮ >0 and ≤1.5% of GDP consolidation (1.5< ▮▮ ≤ 3%, 3< ▮▮▮ ≤ 4.5%, 4.5%< ▮▮▮▮)
- ● Fiscal rules significantly determine fiscal policy course
- ◖ Fiscal rules significantly influence fiscal policy course but balanced with other objectives
- ○ Fiscal policy objectives are under control of government and/or parliament
- \- Fiscal policy course is not governed by fiscal rules or fiscal policy objectives at present
- ■ IFI has an established role in influencing budget forecasts / fiscal policy
- □ IFI very recently established and/or with limited influence in budget forecasts / fiscal policy
- \- No IFI role
- ◆ fiscal stimulus measures and structural economic reforms
- ◈ fiscal stimulus measures (incl. relaxed / counter-cyclical fiscal policy stance and prioritisation of capital investment)
- ◇ structural economic reforms and/or reliance on stable position of public finances
- ǂ complex, multi-faceted approach to supporting economic growth
- ▲ reform activity intensive and/or broadly-based across various aspects of budgetary governance
- △ reform activity moderate and/or focused on specific aspects of budgetary governance
- \- no significant focus on budgetary reform
- ▶ strong engagement of parliament and/or citizens in budgeting policy incl. policy formulation and accountability
- ▷ accessibility and transparency of budgetary information for parliament and/or citizens
- \- no particular initiatives to promote engagement / accessibility for parliament and/or citizens in budgeting

* OECD calculations: consolidation required to meet 60% debt-to-GDP level by 2030

Source: OECD (2015), *State of Public Finances Survey*.



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