

### Fiscal balance and debt by level of government

Different administrative systems allow sub-central governments higher or lower autonomy in raising and spending resources. Correspondingly, fiscal results in those different levels of government may vary substantially. Nevertheless, in order to avoid generating the wrong set of incentives, sub-central governments are often subject to tight fiscal rules, especially about incurring debt to finance deficits.

In 2017, central governments in OECD countries had an average fiscal deficit of 1.9% of GDP while the fiscal deficit of sub-central governments amounted to 0.5% of GDP. The fiscal balance of central governments in 2017 ranged from -4.4% of GDP in Portugal to 5.4% in Norway, with only nine countries having a fiscal surplus. Among the federal states, the United States reported having the largest fiscal deficit (1.5%) at the state government level in 2017, followed by Canada (0.6%) and Australia (0.4%).

In terms of the fiscal balance of local governments in 2017, the largest surplus was in the Czech Republic (0.8%) and the largest deficit was in Iceland (1.3%). Local economies in the Czech Republic are steadily growing; to fully capture the benefits of this growth and make it inclusive a debt rule for local governments has been introduced and some equalisation mechanisms to adjust for differences in revenue-raising capacity have been put in place (OECD, 2018). In Iceland, local governments are responsible for infrastructure, planning and environment and rely largely on income taxes as their main revenue source. Tourism-related spending and pressing infrastructure upgrades are creating difficulties for the municipal governments, as local sources are not sufficient to meet rising pressures, generating a mismatch between revenues and spending (OECD, 2017). In 2018, there was a significant shift of fiscal balances between central government and social security funds in Lithuania, which is due to the debt cancellation of the state social insurance fund by central government.

Government debt could be incurred at the sub-central level in order to finance deficits at the sub-central level through borrowing. On average, debt held by the central governments of OECD countries amounted to 95.7% of GDP in 2017, while that held by the sub-central governments accounted for 20.3% of GDP. In federal states, state governments held significant levels of gross debt with the largest value recorded in Canada (47% of GDP), followed by Spain (27% of GDP). In the case of Canada, while overall debt levels are declining, a mixed trend is observed: between 2017 and 2018 in terms of GDP, debt decreased for the federal government (2.3 p.p.), while it increased at the state level (1.2 p.p.). Due to stricter rules on accumulating debt at the local levels, on average 7.2% of GDP in OECD countries were accounted for local governments, significantly lower than for central and state levels.

#### 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. 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. Fiscal balance also referred to as net lending (+) or net borrowing (-) of general government, is calculated as total government revenues minus total government expenditures. For additional information on debt, see General government gross debt (page 58).

#### Further reading

OECD (2018), OECD Economic Surveys: Czech Republic 2018, OECD Publishing, Paris. [https://doi.org/10.1787/eco\\_surveys-cze-2018-en](https://doi.org/10.1787/eco_surveys-cze-2018-en)

OECD (2017), OECD Economic Surveys: Iceland 2017, OECD Publishing, Paris. [http://doi.org/10.1787/eco\\_surveys-isl-2017-en](http://doi.org/10.1787/eco_surveys-isl-2017-en)

#### Figure notes

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 Ireland, Norway, the United Kingdom and the United States. Data for Chile and Turkey are not included in the OECD average due to missing time series. On data for Israel, see <http://doi.org/10.1787/888932315602>. For Japan data for sub-sectors of general government refer to fiscal year.

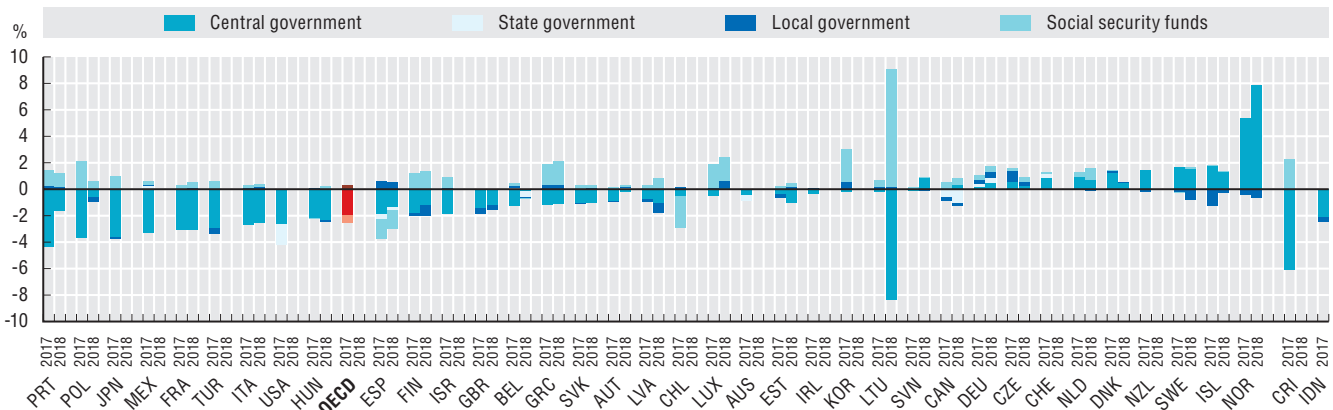
2.15. Data for Indonesia are for 2016 rather than 2017.

2.16. Data for Iceland are not available.

2.16. and 2.17. Data for Chile, Korea and Mexico are not available. Data for Australia, Canada, Sweden and the United States are reported on an adjusted basis (i.e. excluding unfunded pension liabilities). Data for New Zealand, Switzerland and the United States are reported on a non-consolidated basis. Data for Colombia are for 2016 rather than 2017.

2.17. Data are consolidated within the subsectors of general government. However, at the level of general government, flows between levels of government are included. Data for Iceland are not included in the OECD average due to missing time-series.

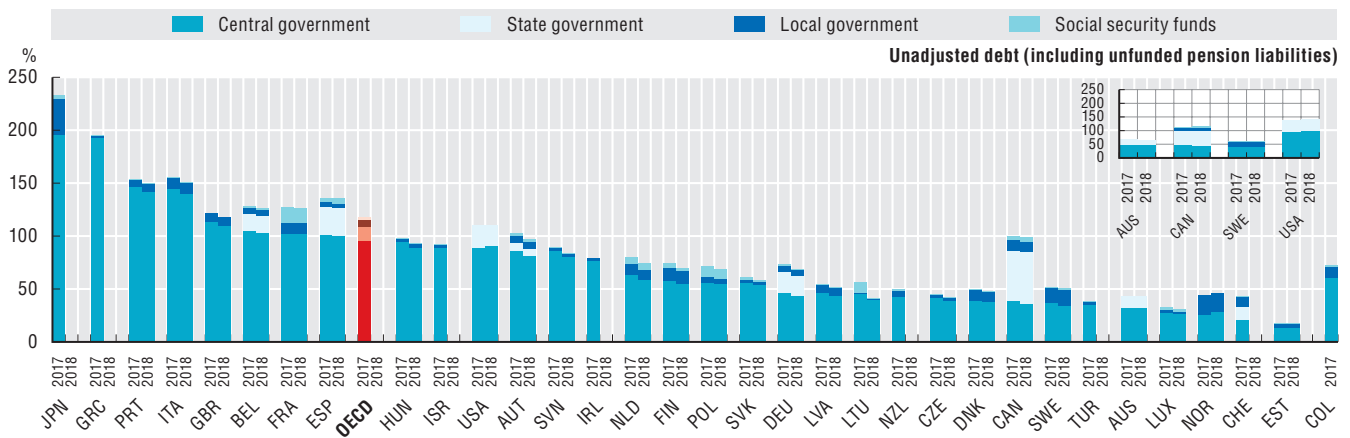
2.15. Government fiscal balances across levels of government as percentage of GDP, 2017 and 2018



Source: OECD National Accounts Statistics (database).

StatLink <https://doi.org/10.1787/888934031522>

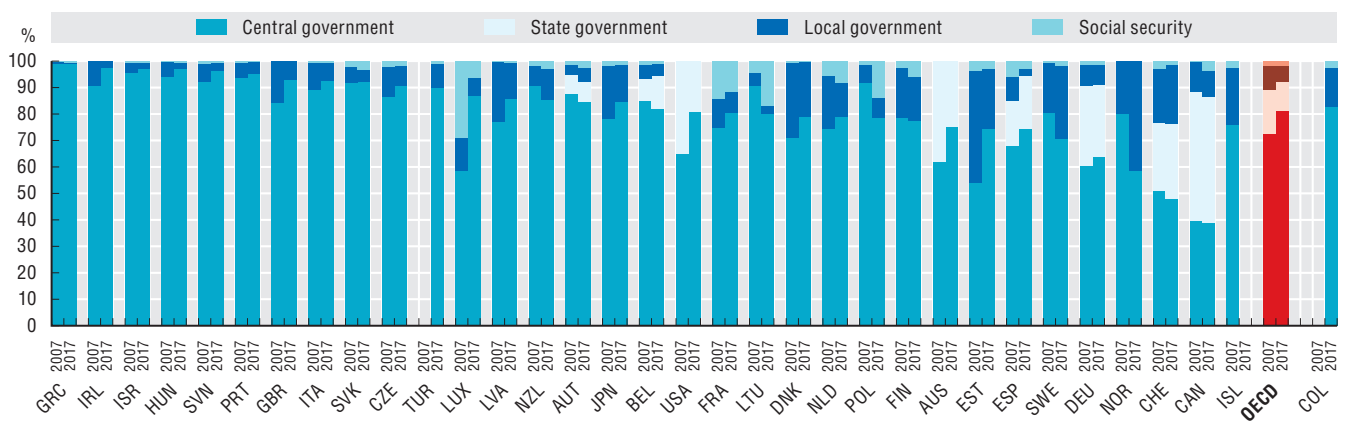
2.16. Government gross debt across levels of government as percentage of GDP, 2017 and 2018



Source: OECD National Accounts Statistics (database); Eurostat Government Finance Statistics (database).

StatLink <https://doi.org/10.1787/888934031541>

2.17. Distribution of government gross debt across levels of government, 2007 and 2017



Source: OECD National Accounts Statistics (database); Eurostat Government Finance Statistics (database).

StatLink <https://doi.org/10.1787/888934031560>



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