

### General government structural balance

The structural balance is used to examine the long-term sustainability of public finances. Fiscal balances can be significantly affected by economic cycles and one-off events. Government revenues tend to decline during economic downturns, as incomes fall. At the same time, public spending tends to increase, as more people claim social assistance or unemployment benefits. Governments may also increase public expenditure to stimulate the economy. All of these effects have been visible during COVID-19. This means that general government fiscal balances do not provide a full picture of governments' underlying fiscal position. The general government structural balance is a measure of the fiscal balance which takes the economic cycle into account. The structural balance is the budget balance which a government would have with its current policies if the economy was operating at its full potential ("potential GDP"). A government with a structural (primary) deficit would still have a (primary) deficit even if the economy was operating at full potential. This indicates its current tax and spending policies are not sustainable in the long run.

In 2019, the average general government structural balance across OECD countries was -3.1% of potential GDP, the same value as in 2007, and 22 out of the 33 OECD countries with available data had a structural deficit. In 2020, structural balances worsened sharply, to an average of -7.1% of potential GDP. All 33 countries except Denmark and Portugal are estimated to have had a structural deficit in 2020. The largest structural deficit in 2020 was in the United States (-12.3% of potential GDP). It had already entered the COVID-19 crisis with the largest structural deficit among OECD countries, driven partly by underlying spending pressures, including on programmes such as Medicaid, Medicare and Social Security. The only countries to improve their structural balances in 2020 were Iceland (+0.3 p.p. of potential GDP) and Portugal (+0.5 p.p.). The greatest deterioration was in Australia (-8.5 p.p.) (Figure 2.5).

In 2019, the general government structural primary balance across OECD countries averaged -1.3% of potential GDP, slightly worse than its value of -1.0% in 2007. Of the 33 OECD countries with available information, 16 had a structural primary deficit. In 2020, structural balances worsened sharply, to an average of -5.5% of potential GDP, and 29 of the 33 countries had a structural primary deficit. The only exceptions were Portugal (+2.8% of potential GDP), Greece (+1.6%), Denmark (+1.0%) and the Czech Republic (0.4%). The largest structural primary deficit was in the United States (-9.5% of potential GDP). The only countries to improve their balances in 2020 were Portugal (+0.1 p.p. of potential GDP) and Iceland (+0.5 p.p.). The greatest deterioration was in Australia (-8.6 p.p.) (Figure 2.6). Widespread and increasing structural deficits in 2020 indicate that countries are likely

to need to raise taxes or lower spending in the future, in order to put their finances back into a sustainable position. For most countries, adjustment is projected to begin in 2022. The structural primary balance is forecast to worsen further in 30 of 33 OECD countries in 2021, rising to an average of -7.6% of GDP. In 2022, as the health and economic impacts of COVID recede, and growth returns, the structural primary balance is projected to improve in 31 of 33 OECD countries, to an average of -4.9% of GDP (Figure 2.7). The extent to which further adjustment in tax and expenditure policies will be needed beyond this point will depend on the size of the rebound in GDP growth. However, it is likely that many countries will eventually need to moderate spending and/or raise taxes post-COVID to ensure their public finances are sustainable. This may partly be achieved automatically and with relatively little impact on citizens as governments rescind income support measures and tax breaks which were explicitly part of COVID-19 relief, and are no longer needed.

#### Methodology and definitions

Data are derived from the OECD Economic Outlook, No.109 (database). The structural fiscal balance, or underlying balance, represents the fiscal balance as reported in the System of National Accounts (SNA) framework adjusted for two factors: the state of the economic cycle (as measured by the output gap) and one-off fiscal operations. Potential GDP is not directly observable and estimates are subject to substantial margins of error. One-off factors include both exceptional and irregular fiscal transactions as well as deviations from trend in net capital transfers. For more details, see Sources and Methods of the OECD Economic Outlook ([www.oecd.org/eco/outlook/sources-and-methods.htm](http://www.oecd.org/eco/outlook/sources-and-methods.htm)).

#### Further reading

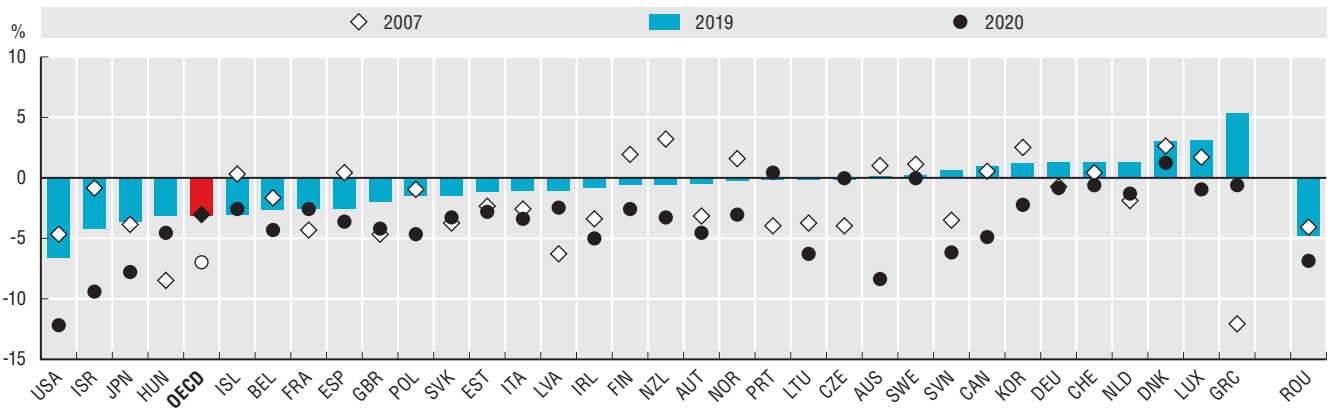
OECD (2020), *OECD Economic Surveys: United States 2020*, OECD Publishing, Paris, <https://doi.org/10.1787/12323be9-en>.

Bloch, D. and J. Fournier (2018), "The deterioration of the public spending mix during the global financial crisis: Insights from new indicators", *OECD Economics Department Working Papers*, No. 1465, OECD Publishing, Paris, <https://doi.org/10.1787/2f6d2e8f-en>.

#### Figure notes

Data for Chile, Colombia, Mexico and Turkey are not available.

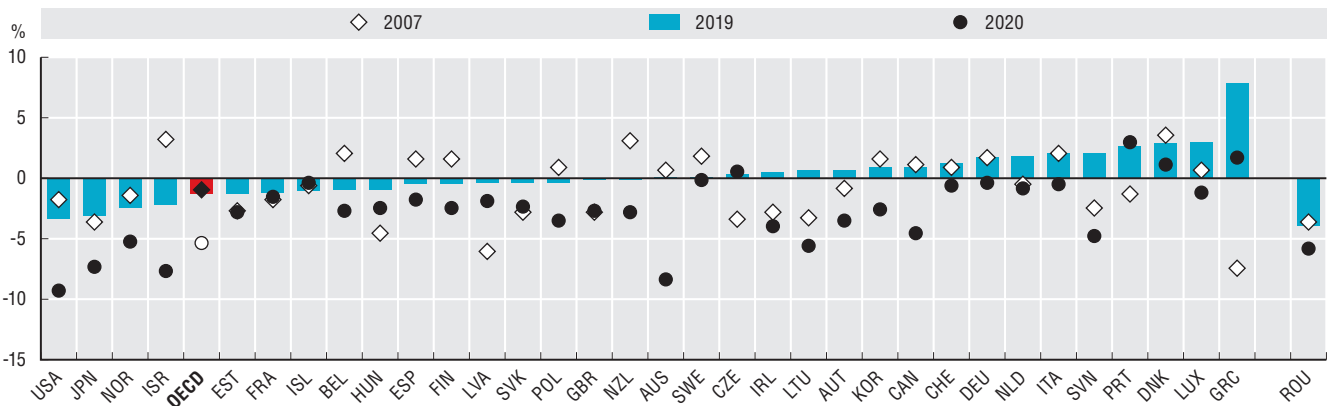
2.5. General government structural balance as a percentage of potential GDP, 2007, 2019 and 2020



Source: OECD Economic Outlook, No 109, May 2021.

StatLink <https://doi.org/10.1787/888934256710>

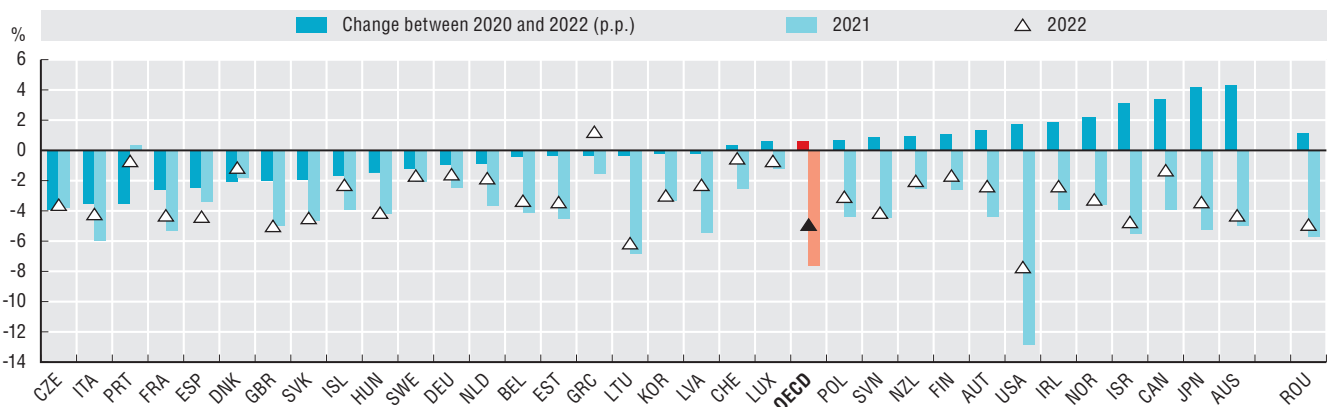
2.6. General government structural primary balance as a percentage of potential GDP, 2007, 2019 and 2020



Source: OECD Economic Outlook, No 109, May 2021.

StatLink <https://doi.org/10.1787/888934256729>

2.7. Projected general government structural primary balance as a percentage of potential GDP in 2021 and 2022, and projected change between 2020 and 2022



Source: OECD Economic Outlook, No 109, May 2021.

StatLink <https://doi.org/10.1787/888934256748>



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