

### General government structural balance

The government fiscal balance can be significantly affected by economic cycles and one-off events. Government revenues (particularly tax revenues) tend to decline during economic downturns, as there is less economic activity subject to the corresponding taxes. At the same time, public spending may increase as more people become unemployed and qualify for social assistance or unemployment benefits. The government could also decide to carry on additional expenditure (e.g. investment) to counterbalance the effects of less private activity. As such, the general government fiscal balance alone does not depict a full picture of the government's underlying fiscal position. General government structural balance, which takes into account the effects that could be attributed to the economic cycle and one-off events, better captures structural trends for assessing the sustainability of public finances in the long run. Estimating the structural balance requires estimating the structural and cyclical components of both the fiscal balance and output, (also referred to as the potential GDP [i.e. the economy working at full capacity not affecting inflation]). In turn, the output gap measures the difference between actual and potential GDP.

In terms of potential GDP, the structural fiscal balance in OECD countries reached an average deficit of 2.3% in 2017. In particular, and despite its current positive economic outlook, the United States (4.7%) reported the highest cyclically adjusted deficit. This value reflects among others, the effects of tax cuts not yet offset by expected additional growth as well as higher health spending. In turn, globalisation and automation have displaced workers, especially in the industrial heartland; many of these workers have had trouble finding new employment. This has led to the development of areas of high unemployment, non-participation and poverty and created a surplus of labour to the economy adding some pressure on income support programmes (OECD 2018a). In contrast, Greece, reported having the largest structural surplus (6.4%) in terms of structural balance for the same year. Greece has conducted substantial consolidation efforts, achieved through improvements in tax compliance and spending controls that led to fiscal over-achievement between 2015-17. In turn, this good performance may have boosted confidence, mitigating the contractionary effects of fiscal consolidation. Due to its fiscal performance and expected further improvements Greece exited the EU Excessive Deficit Procedures in 2017 (OECD, 2018b).

Compared to 2017, almost two-thirds of OECD countries experienced a deterioration of their government structural balance in 2018, to an average deficit of 2.8%. The largest increase in the structural deficit was observed in Israel (2.1 p.p.), resulting from tax reductions and increases in subsidies as well as government difficulties in achieving political consensus for implementing fiscal reform. On the other end, the greatest improvements in the structural

balance were observed in Luxembourg and Germany (+1.0 p.p. for both countries). In both cases, this was driven by robust economic growth and prudent fiscal policies. In the case of Germany, however, growth is expected to slow as the economy is facing capacity constraints, including on employment (OECD 2018c).

The structural primary balance is also adjusted for the impact of net interest payments on general government liabilities (i.e. interest payments minus interest receipts). A similar general deteriorating pattern as found for structural balances is observed for structural primary balances. While the average level of structural primary balance level in OECD countries amounted to -0.5% of their potential GDP in 2017, it is expected to further deteriorate by 0.4 p.p. from 2018 to 2020. This negative projected trend is driven by increased uncertainty due to factors such as the trade war between the United States and China and its consequences in other economies or the potential effects of Brexit, all of which are expected to affect global growth.

#### Methodology and definitions

Data are derived from the *OECD Economic Outlook*, No.105 (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 (2018), *OECD Economic Surveys: United States 2018*, OECD Publishing, Paris. [http://dx.doi.org/10.1787/eco\\_surveys-usa-2018-en](http://dx.doi.org/10.1787/eco_surveys-usa-2018-en)

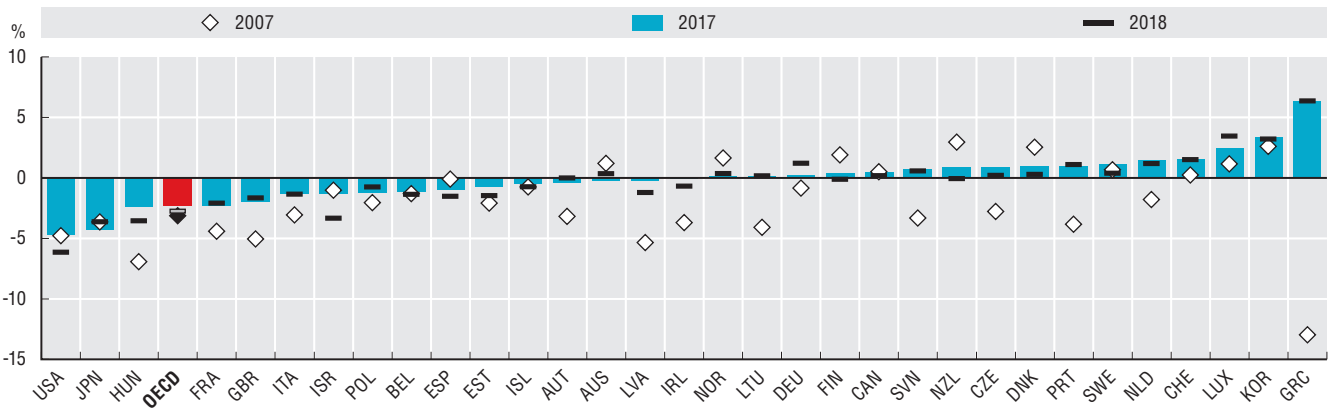
OECD (2018), *OECD Economic Surveys: Greece 2018*, OECD Publishing, Paris. [http://dx.doi.org/10.1787/eco\\_surveys-grc-2018-en](http://dx.doi.org/10.1787/eco_surveys-grc-2018-en)

OECD (2018c), *OECD Economic Surveys: Germany 2018*, OECD Publishing, Paris. [http://dx.doi.org/10.1787/eco\\_surveys-deu-2018-en](http://dx.doi.org/10.1787/eco_surveys-deu-2018-en)

#### Figure notes

Data for Chile, Mexico, the Slovak Republic and Turkey are not available. On data for Israel, see <http://doi.org/10.1787/888932315602>.

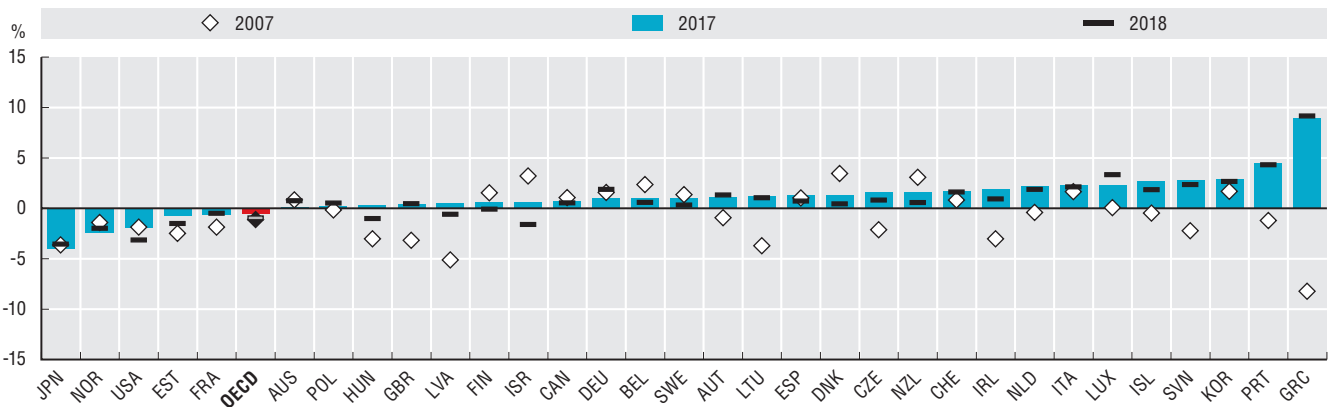
2.6. General government structural balance as a percentage of potential GDP, 2007, 2017 and 2018



Source: OECD Economic Outlook, No 105, May 2019.

StatLink <https://doi.org/10.1787/888934031370>

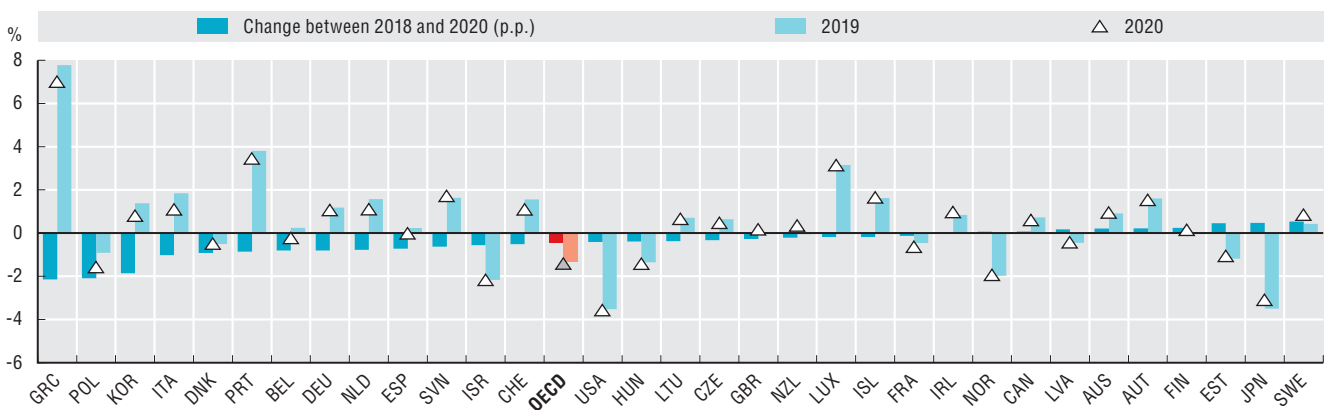
2.7. General government structural primary balance as a percentage of potential GDP, 2007, 2017 and 2018



Source: OECD Economic Outlook, No 105, May 2019.

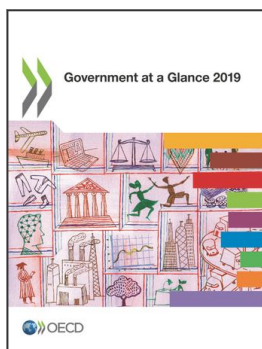
StatLink <https://doi.org/10.1787/888934031389>

2.8. General government projected structural primary balance as a percentage of potential GDP in 2019 and 2020 and change since 2018



Source: OECD Economic Outlook, No 105, May 2019.

StatLink <https://doi.org/10.1787/888934031408>



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