Chapter 1

The state of public finances 2015: An overall perspective

This chapter presents the overall state of public finances in OECD countries with a particular focus on trends and policy responses between 2007 and 2014. The chapter presents the headline and underlying fiscal position and presents the various fiscal policy responses to the global economic and financial crisis, as well as the ongoing implications for fiscal policy in light of remaining fiscal challenges and country plans. The chapter includes a discussion of fiscal consolidation strategies, recent developments in fiscal rules, country strategies to protect and promote economic growth, the developing role of independent fiscal institutions and the broader range of related reforms in budgetary governance.

1. The economic and fiscal context for budgetary strategy in OECD countries

Economic situation in OECD countries

The prolonged economic and financial crisis that was precipitated in 2008 has had a profound effect on the economic dynamism of most OECD countries over the past seven years, and – as this report illustrates – upon the health of their public finances. Economic growth had appeared strong and robust across the OECD area in the run-up to the crisis, reaching 2.7% per annum in 2007, but the widespread and systemic shocks to the international economy stopped this growth in its tracks in 2008 and led to a sharp economic decline of 3.4% per annum in 2009. Since then, the global economy has been on a steady upward trajectory, albeit with different rates of recovery in different regions (and with the euro area in particular being relatively sluggish) (see Table 1.1 and Figure 1.1). The recent *OECD Economic Outlook* projects that global growth will strengthen during 2015 and 2016, but only to a modest extent relative to previous recoveries. The global recovery is underpinned by very supportive monetary conditions and lower oil prices, and the strength and intensity of fiscal consolidation has varied, as some OECD countries have sought to temper the pro-cyclical impact of fiscal retrenchment (see Section 4, Protecting and promoting economic growth: Country strategies).

It is notable that the risks to the outlook, and to future growth, are particularly uncertain at present, ranging from:

- the possible withdrawal – whether gradual or sharp – from the very accommodative monetary position across OECD countries and particularly in the United States
- the effects of a possible "hard landing" in China, an issue that has been brought into sharper focus as a result of market turbulence in mid-2015
- the resolution of Greece's difficulties within the euro area
- various geopolitical tensions and potential upheavals.

Box 1.1. **Note on methodology, definitions and sources**

Fiscal data and economic data are derived respectively from the *OECD National Accounts Statistics* (database), which uses the internationally recognised System of National Accounts, the *OECD Economic Outlook No. 97* (May 2015) and the *OECD Interim Economic Outlook* (Sep 2015). The country-specific economic summaries in Chapter 2 are also based on the *OECD Economic Outlook No.* 97 and the *OECD Interim Economic Outlook*. Data in relation to fiscal consolidation undertaken or proposed to be undertaken by countries, and on related budgetary governance issues, are based on country responses to the *OECD State of Public Finances Survey 2015*. Comparisons with previous fiscal consolidation plans use material from the OECD report, *Restoring Public Finances, 2012 Update*.

Several of the charts/presentations of fiscal data and economic data have appeared in the *OECD's Government at a Glance 2015* as well as the *OECD Economic Outlook No. 97*.

Note: OECD WA and UWA are weighted and unweighted averages.

Table 1.1. **The global recovery will gain momentum only slowly**

OECD area, unless noted otherwise

	Average 2011-12	2012	2013	2014	2015	2016
			Percent			
Real GDP growth[1]						
World[2]	3.9	3.3	3.3	3.3	3.1	3.8
OECD[2]	1.7	1.3	1.4	1.8	1.9	2.5
United States	1.7	2.3	2.2	2.4	2.0	2.8
Euro area	1.1	-0.8	-0.3	0.9	1.4	2.1
Japan	0.7	1.7	1.6	-0.1	0.7	1.4
Non-OECD[2]	6.7	5.2	5.1	4.7	4.2	4.9
China	10.6	7.7	7.7	7.4	6.8	6.7
Output gap[3]	0.1	-2.1	-2.2	-2.0	-1.9	-1.2
Unemployment rate[4]	6.9	7.9	7.9	7.3	6.9	6.6
Inflation[5]	2.1	1.9	1.3	1.5	0.7	1.7
Fiscal balance[6]	-4.4	-5.8	-4.2	-3.7	-3.1	-2.5
Memorandum items						
World trade growth	5.6	3.1	3.3	3.2	3.9	5.3

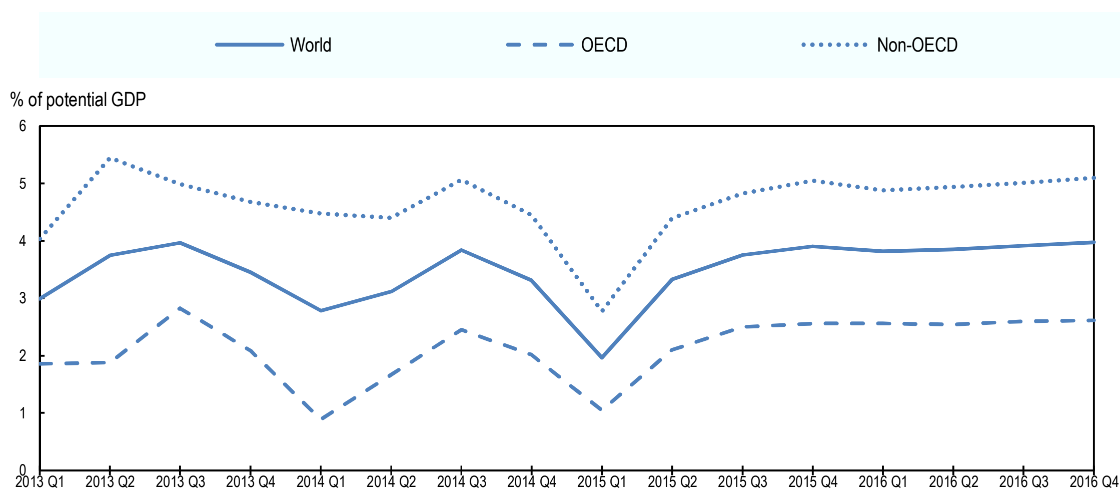
Notes:

1. Year-on-year increase; last three columns show the increase over a year earlier.
2. Moving nominal GDP weights, using purchasing power parities.
3. Percent of potential GDP.
4. Percent of labour force.
5. Private consumption deflator. Year-on-year increase; last three columns show the increase over a year earlier.
6. Percent of GDP.

Sources: OECD (2015a), "OECD Economic Outlook No. 97 (Edition 2015/1)", *OECD Economic Outlook: Statistics and Projections* (database), http://dx.doi.org/10.1787/data-00759-en; OECD (2015b), "OECD Interim Economic Outlook".

Figure 1.1. **Global growth is set to recover**

Quarter-on-quarter percentage changes at annual rates



Note: Data is projected from 2015 Q2.

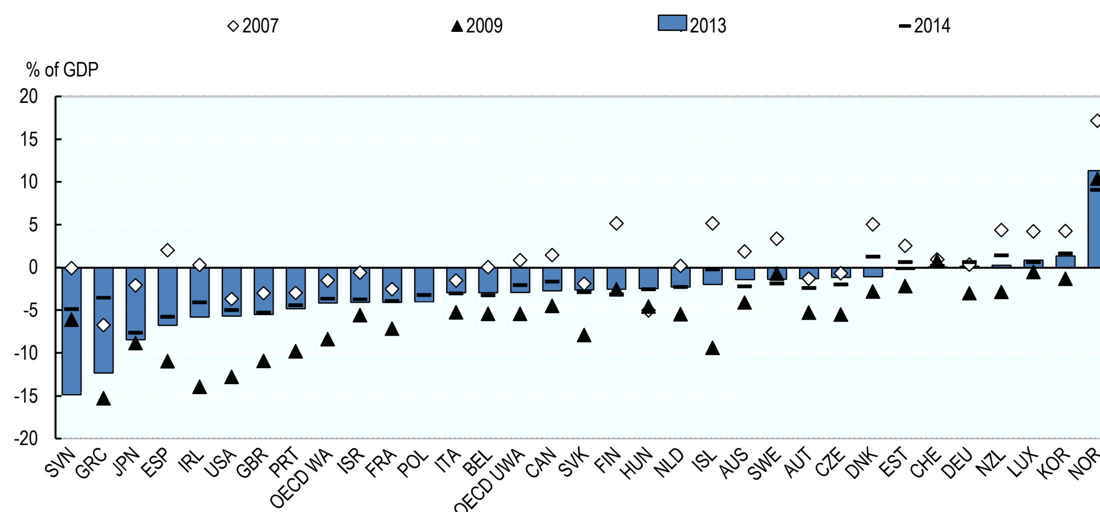
Source: OECD (2015a), "OECD Economic Outlook No. 97 (Edition 2015/1)", *OECD Economic Outlook: Statistics and Projections* (database), http://dx.doi.org/10.1787/data-00759-en.

StatLink http://dx.doi.org/ 10.1787/888933287890

Overall fiscal position in OECD countries

With regard to **fiscal balance of public finances,** in aggregate OECD countries were running a fiscal deficit of -1.5% of GDP (gross domestic product) just prior to the crisis in 2007 – a figure which swung to around -8% of GDP in 2009 and 2010, and has recovered slowly so that it remains -3.7% of GDP in 2014 (Figure 1.2). These average figures mask, however, some strong variations across countries, both with regard to their starting pre-crisis position (some countries - notably Denmark, Korea, New Zealand and Norway - had a strong fiscal surplus in 2007) and to the nature of their fiscal policy response, i.e. whether to focus upon strong fiscal correction (Ireland and Spain) or to seek to allow some space for fiscal counter-stimulus (Czech Republic, France and Hungary). The analysis later in this chapter shows how the different strategies have correlated with fiscal outcomes. It is notable that fiscal deficits have been improving across most OECD countries, albeit at varying rates over recent years.

Figure 1.2. **General government fiscal balance as a percentage of GDP 2007, 2009, 2013 and 2014**

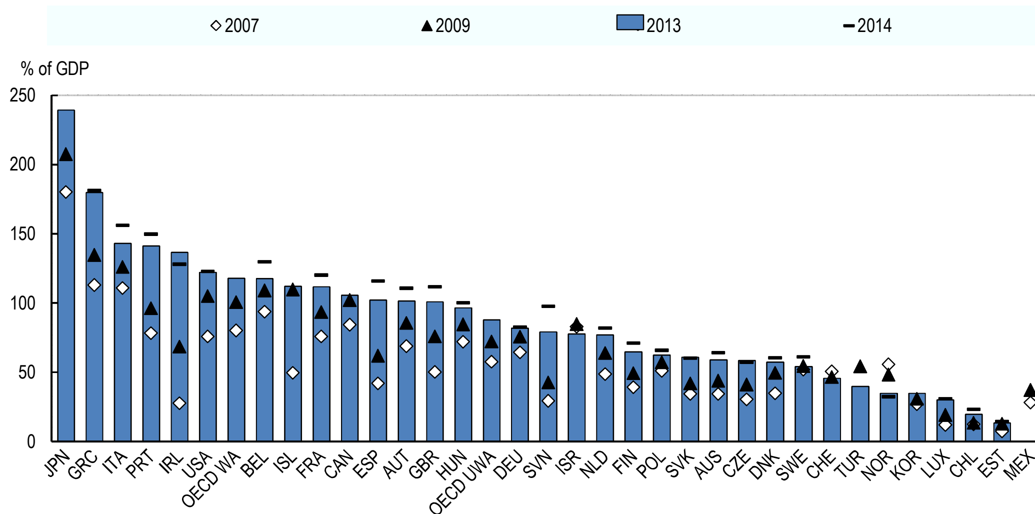


Source: OECD (2015a), "OECD Economic Outlook No. 97 (Edition 2015/1)", *OECD Economic Outlook: Statistics and Projections* (database), http://dx.doi.org/10.1787/data-00759-en.

StatLink http://dx.doi.org/ 10.1787/888933287906

With many OECD countries still showing a fiscal deficit, the **public debt position** continues to worsen (Figure 1.3). The average gross debt position across the OECD has risen from 80% of GDP in 2007 to 118% by 2013. The debt position worsened for all but three OECD countries over the period (Israel, Norway and Switzerland) and the figures for some OECD countries are particularly stark: Ireland's debt ratio increased by 109 percentage points from its pre-crisis level to its peak level in 2013, with increases of between 60-70 percentage points recorded in four OECD countries (Greece, Iceland, Portugal and Spain) over that period. While a small number of countries (Israel, Norway and Turkey) began to reduce their public debt level from 2009, trends since 2013 have begun to diverge, as some OECD countries (e.g. Czech Republic, Ireland and Slovak Republic) have seen a downward turn in the debt ratio, while in other countries (e.g. Italy, Slovenia and Spain) the debt level has continued to rise.

Figure 1.3. **General government debt as a percentage of GDP 2007, 2009, 2013 and 2014**



Sources: OECD (2015c), *OECD National Accounts Statistics* (database), http://dx.doi.org/10.1787/na-data-en; European Commission (2015), *Government Finance Statistics* (database), Eurostat, http://ec.europa.eu/Eurostat/web/government-finance-statistics/data/database.

StatLink http://dx.doi.org/ 10.1787/888933287914

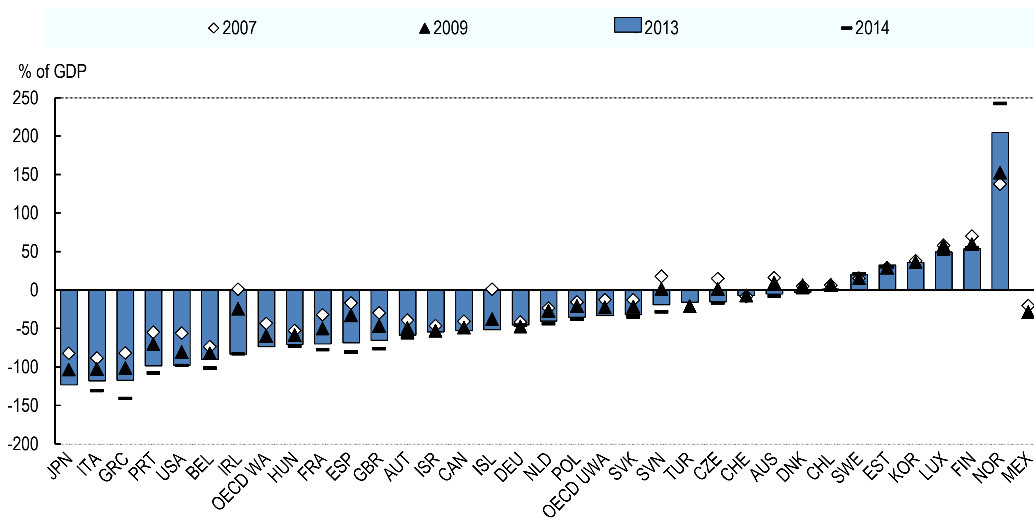
The figures for **financial net worth** of general government (or net government debt), which reflect the gap between financial assets and liabilities held by governments, provide another perspective on the decline in public finances (Figure 1.4). In 2007, OECD countries, on average, recorded a negative financial net worth of -43.7% of GDP, and this figure has almost doubled to -73.7% in 2013, reflecting the impact of the financial crisis. The largest declines in financial net worth over the period have been experienced in Ireland (84.4 percentage points), Iceland (52.6 percentage points) and Spain (51.5 percentage points), reflecting, in particular, the impact of banking sector bail-outs and supports in those countries.

2. Public finance responses across OECD countries

Overview of fiscal policy responses

To form an assessment of the underlying position of the public finances and the scale of fiscal policy responses undertaken by countries, it is useful to examine the structural fiscal balance and the primary fiscal balance. The **structural fiscal balance** is the balance of expenditures and revenues, corrected for effects of the economic cycle and for one-off events, thereby illustrating the underlying strength of the public finance position. A growing structural surplus (or declining deficit) indicates a contractionary fiscal stance, whereas a growing structural deficit (or declining surplus) shows an expansionary stance. It should be noted, however, that the fiscal stance of the public sector is only one factor in the overall growth dynamic of an economy and thus of the public finances. In other words, running a structural fiscal deficit is not formally incompatible with a situation of weak growth and worsening public finances; and conversely running a structural surplus is not incompatible with achieving a growing economy and improving public finances. The overall trend and composition of the structural fiscal balance may also affect confidence levels which, in turn, feed into patterns of consumption and investment which directly affect growth.

Figure 1.4. **General government financial net worth as a percentage of GDP 2007, 2009, 2013 and 2014**

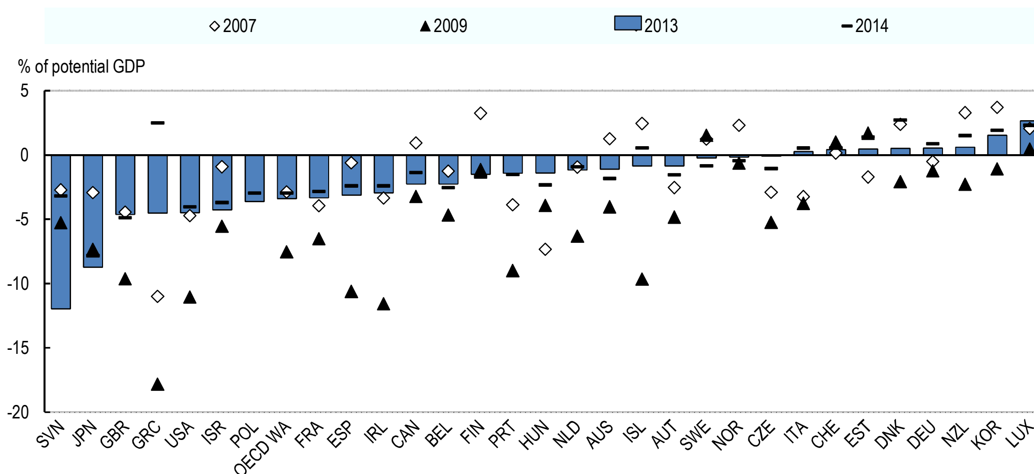


Sources: OECD (2015c), *OECD National Accounts Statistics* (database), http://dx.doi.org/10.1787/na-data-en; European Commission (2015), *Government Finance Statistics* (database), Eurostat, http://ec.europa.eu/Eurostat/web/government-finance-statistics/data/database.

StatLink http://dx.doi.org/ 10.1787/888933287925

Across the OECD as a whole, the structural fiscal balance was in deficit of -2.9% of GDP in 2007, and this had slightly fallen to -3.0% in 2014 (Figure 1.5). However, this aggregate picture masks both the temporal dimension, as the structural fiscal balance has shifted markedly over the period of the crisis, and the geographical dimension, as different countries have had very different experiences and approaches.

Figure 1.5. **General government structural fiscal balance as a percentage of potential GDP 2007, 2009, 2013 and 2014**



Note: "Structural fiscal balance" refers to the fiscal balance adjusted for the state of economic cycle and one-off fiscal operations.

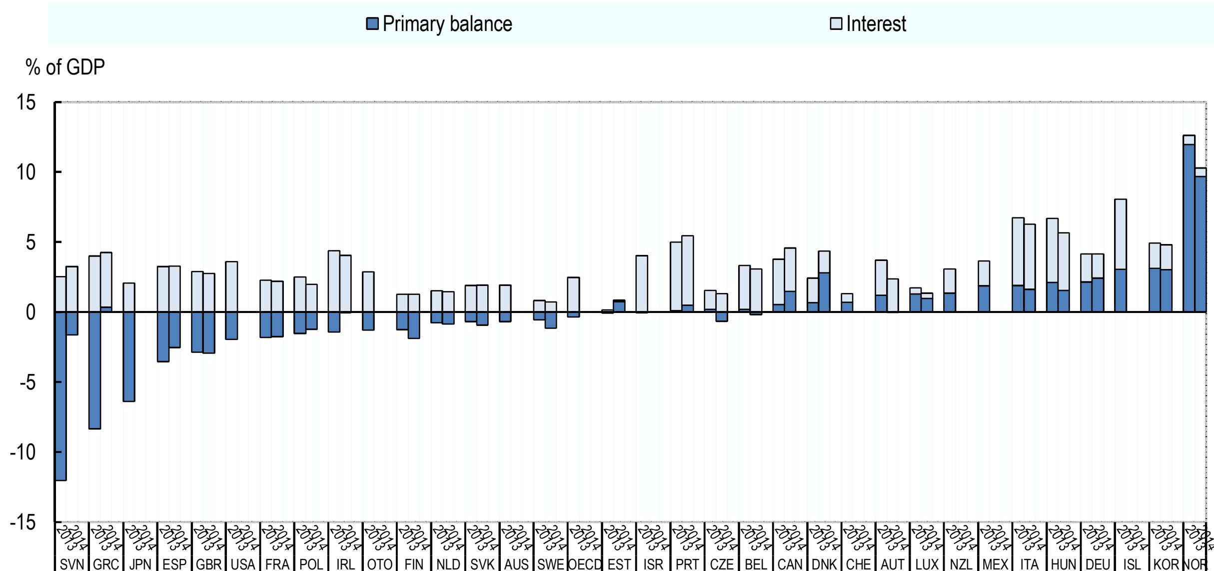
Source: OECD (2015a), "OECD Economic Outlook No. 97 (Edition 2015/1)", *OECD Economic Outlook: Statistics and Projections* (database), http://dx.doi.org/10.1787/data-00759-en.

StatLink http://dx.doi.org/ 10.1787/888933287931

In fact, the OECD-wide structural fiscal deficit fell sharply to -7.5% of GDP in 2009 and has been steadily worked back towards its pre-crisis level over the subsequent years, which have been marked by fiscal correction and austerity in many OECD countries. For some individual countries the story has been even more stark: for example, Iceland was running a structural fiscal surplus of 2.4% of GDP in 2007, while Spain was close to structural fiscal balance, but in both countries the impact of the economic collapse (and, in particular, the banking sector fall-out) led to a sudden drop to a structural fiscal deficit of around -10% of GDP in 2009; whereas in the case of Greece, a pre-crisis structural fiscal deficit of -11% of GDP fell further to -17.8% of GDP by 2009. In all three countries, the 2014 position is better than the OECD average, with Greece achieving a structural fiscal surplus of 2.5% of GDP in 2014.

The **primary fiscal balance** (i.e. the balance of expenditures and revenues, omitting debt-interest costs) was in deficit of -1.3% in 2013 across OECD countries, although again the aggregate figure masks important variations. Norway (12.0% of GDP), Korea (3.1%), Iceland (3.0%) and Germany (2.2%) recorded high primary fiscal surpluses, whereas Slovenia (-12.0% of GDP), Greece (-8.3%) and Japan (-6.4%) had high primary fiscal deficits. Reducing a primary fiscal deficit is an essential part of a debt-reduction strategy, and it is notable in this regard that both Slovenia and Greece sharply curtailed their primary fiscal deficits in 2014 to, respectively, -1.6% and a surplus of 0.4%. The United Kingdom, with a high debt level of 96% of GDP in 2014, has seen its primary fiscal balance disimprove slightly from -2.5% to -2.7% of GDP between 2013 and 2014 (Figure 1.6).

Figure 1.6. **General government primary balance and interest spending**



Source: OECD (2015c), *OECD National Accounts Statistics* (database), http://dx.doi.org/10.1787/na-data-en.

StatLink http://dx.doi.org/ 10.1787/888933287940

Phases of fiscal policy development

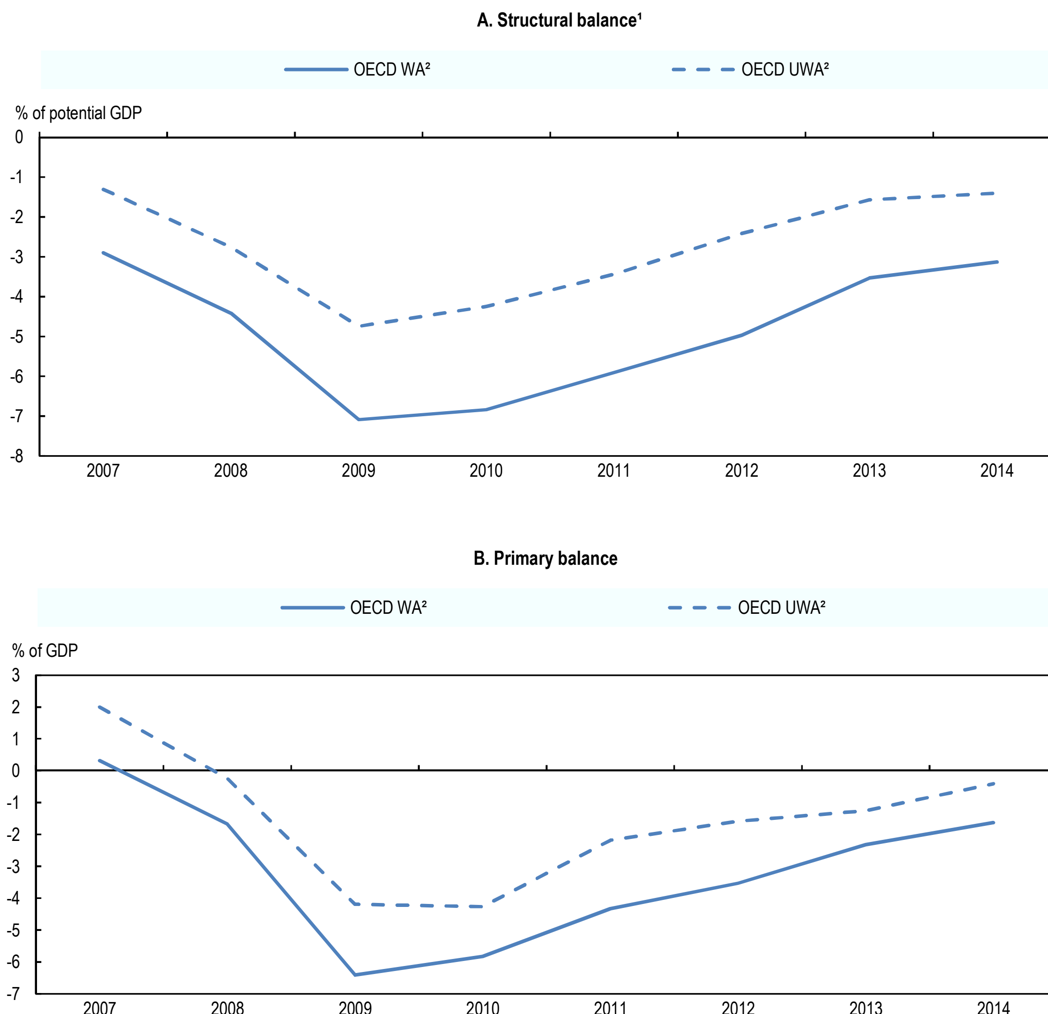
While public finances would be expected to suffer an acute cyclical impact from the economic and financial crisis, an analysis of the underlying trends in structural and primary balances over the period of the economic and financial crisis can help to understand how policy responses have evolved over time. Having regard to the trends in the underlying figures (Figure 1.7), and taking account of the country-specific details set out in Chapter 2 of this report, certain distinct phases of policy response can usefully be discerned.

1. **2007-09: Active/accommodative fiscal policy phase**. While OECD countries on average had relatively sound structural and primary fiscal balances in 2007, these balances significantly deteriorated in the wake of the financial crisis. The OECD-wide structural fiscal balance dropped from -2.9% of potential GDP in 2007 to -7.1% in 2009 while the primary fiscal balance dropped from 0.3% of GDP in 2007 to -6.4% in 2009. The swing in the underlying figures reflects a marked counter-cyclical response. The extent to which this counter-cyclical response was deliberate, in the interests of countering the sharp economic downturn, or whether it reflected the play of automatic stabilisers against a more passive fiscal policy background, varied from country to country.
2. **2010-11: Stabilising fiscal policy phase**. With signs of economic stabilisation and concerns about the rapid build-up of public debt, several OECD countries adapted their fiscal policy course to some extent. Again, the precise nature of timing of the fiscal policy response varied among OECD countries. Some countries (e.g. Austria, Belgium and Denmark) began to tighten the fiscal position in 2010 while other countries (e.g. Australia, Canada and Finland) maintained a more accommodative fiscal stance through to 2011 or longer. Looking at the OECD average, structural and primary fiscal balances in 2010 showed only a modest improvement to, respectively, -6.8% and -5.8% of GDP. By 2011, however, most OECD countries had moved decisively towards a path of fiscal correction: in that year, structural and primary fiscal deficits sharply rebounded to -5.9% and -4.3% of GDP, respectively.
3. **2012-14: Progressive fiscal consolidation phase**. Since 2012, structural and primary fiscal balances have continued to improve steadily as fiscal policy has been geared towards progressive consolidation, and as the urgency of fiscal correction has begun to abate in several OECD countries. By 2014, the structural deficit had been almost halved from -5.9% in 2011 to -3.1% and the primary deficit had been curtailed from -4.3% to -1.6% over the same period.

Fiscal consolidation undertaken to date by four categories of countries

The earlier OECD publication on *Restoring Public Finances* and its *2012 Update* (OECD 2011, 2012) categorised OECD countries into four distinct groups. While the criteria which determined those original groupings no longer apply to all of the countries, it is useful to trace the evolution of the public finance position of the original country clusters.

Figure 1.7. **Structural and primary fiscal balances in OECD countries**



Notes:

1. The structural balance refers to the underlying balance which corresponds to the fiscal balance adjusted for the state of economic cycle and one-off fiscal operations.

2. OECD WA and UWA are weighted and unweighted averages.

Source: OECD (2015a), "OECD Economic Outlook No. 97 (Edition 2015/1)", *OECD Economic Outlook: Statistics and Projections* (database), http://dx.doi.org/10.1787/data-00759-en.

http://dx.doi.org/ 10.1787/888933287950

Category A. Countries with IMF/EU/ECB programmes

This category included countries with a formal and ongoing programme with the International Monetary Fund, the European Central Bank, and/or the European Commission. Three OECD countries were in this position: **Greece, Ireland** and **Portugal.**

Both Ireland and Portugal have since exited their financial support programmes and have developed renewed economic momentum, while Greece has continued to work through its acute fiscal difficulties.

Category B. Countries under distinct market pressure

This category included OECD countries with an average fiscal consolidation requirement over the period 2012-30 above 3% of GDP and with an experienced change in long-term interest rates over the period 2006-11 equal to or above zero. This category included **Belgium, Hungary, Italy, Poland, the Slovak Republic, Slovenia** and **Spain.**

Market pressure applying to the various countries has been considerably lessened since 2012, particularly in light of supportive monetary policy in recent years.

Category C. Countries with substantial deficits and/or debt but less market pressure

Category C included OECD countries which met one or more of the following criteria: an average consolidation requirement over the period 2012-30 higher than 3% of GDP, an estimated average general government fiscal deficit of 2011-12 above 3% of GDP, or the 2011 general government gross debt above 60% of GDP.

This category included several OECD countries that are members of the European Union, with deficit levels in excess of the 3%-of-GDP EU limit, and that were the subject of European Commission monitoring in this regard: **Austria, the Czech Republic, Denmark, France, Germany, the Netherlands** and **the United Kingdom.** In addition, the category encompassed other OECD countries that introduced fiscal consolidation plans or fiscal strategies in order to curb the fiscal deficit and/or reduce debt – **Canada, Finland, Iceland, Israel, Mexico** and **New Zealand** – as well as **Japan** and the **United States** which also had large long-term consolidation needs but which had not yet adopted comprehensive consolidation strategies.

Category D. Countries with no or marginal consolidation needs

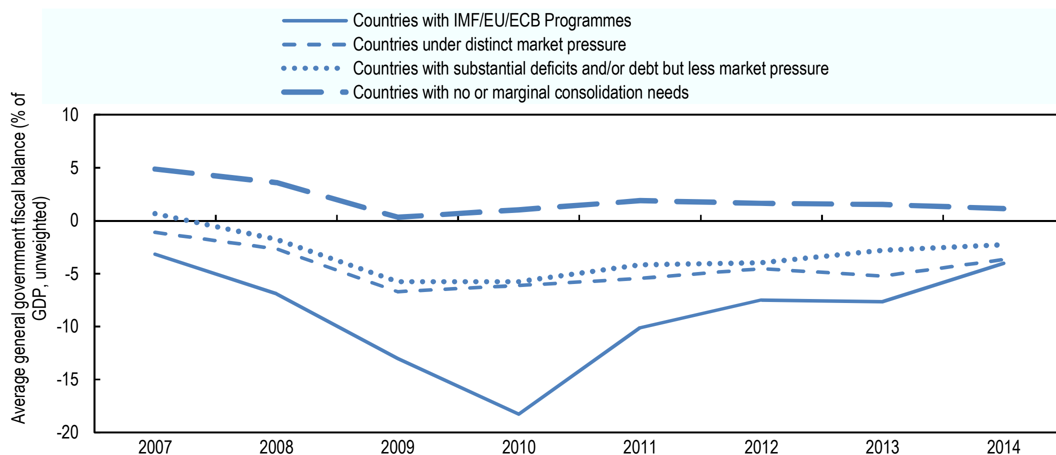
Finally there were nine countries that did not have significant fiscal consolidation needs: **Australia, Chile, Estonia, Korea, Luxembourg, Norway, Sweden, Switzerland** and **Turkey.** These countries had low long-term consolidation needs (average 1.5% of GDP), their long-term interest rates had reduced over the period 2006-11 and they were characterised by both low deficits/surpluses and low gross debt-to-GDP ratios.

Figure 1.8 shows the fiscal policy course undertaken by each of those four original groupings since 2007. The chart illustrates how *Category A* countries suffered a severe fiscal shock in the period 2007-09, with the deficit level plummeting to -13% of GDP on average, and how a rigorous fiscal correction has seen the deficit levels brought back to -4% of GDP on average in 2014. The 9 percentage point improvement in the fiscal position in fact understates the degree of “fiscal effort” which these countries have had to undertake, as the consolidation was undertaken at a time of stagnant or falling economic growth. Indeed, the countries in *Category A* have now, on average, converged fully with those in the original *Category B*, i.e. with those countries that had weak fiscal positions and were subject to market pressures. Countries in the latter category have improved their fiscal position by 3.2 percentage points on average from their deficit nadir in 2009. The *Category C* countries – i.e. those with poor fiscal positions but less market pressure – have followed a similar adjustment path to their *Category B* counterparts, and indeed

have been more successful at correcting their deficits, achieving a 3.6 percentage point improvement on average over the period.

Finally, countries in the original *Category D* have, on the whole, undergone a relatively mild fiscal adjustment, with their sound pre-crisis fiscal surplus enabling them to weather the crisis without imposing a severe pro-cyclical fiscal shock upon their economies.

Figure 1.8. **Fiscal policy responses by four country categories, 2007-14**



Source: OECD (2015a), "OECD Economic Outlook No. 97 (Edition 2015/1)", *OECD Economic Outlook: Statistics and Projections* (database), http://dx.doi.org/10.1787/data-00759-en.

StatLink http://dx.doi.org/ 10.1787/888933287966

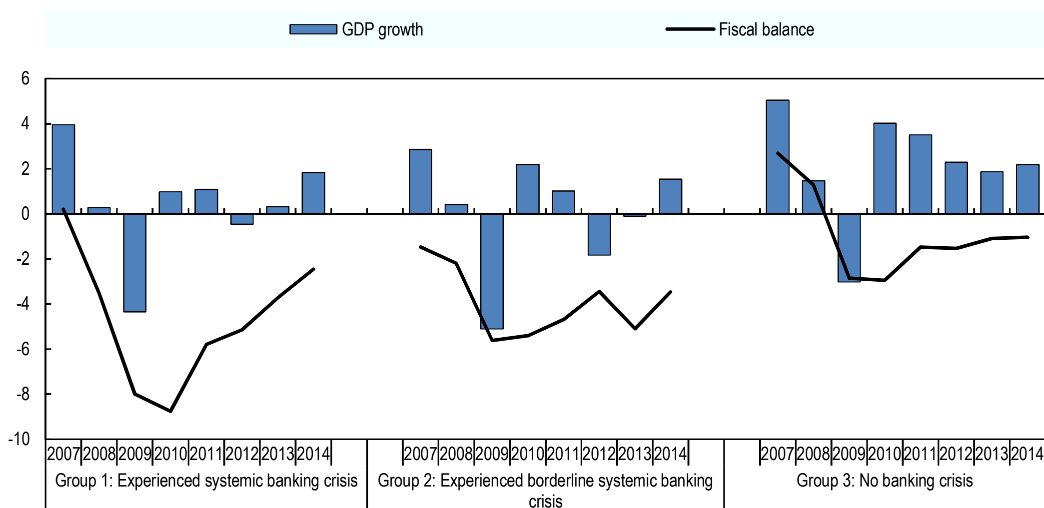
The impact of banking crises on fiscal balances

The impact of the economic and financial crisis upon the public finances of OECD countries was not uniform, and was in some cases aggravated by the large-scale "bailing-in" of public funds in support of failing banks and other financial institutions. For example, Andrle et al. (2015) categorises banking crises over the period into *systemic* or *borderline* cases, by reference to a range of criteria such as specific signs of financial distress in the banking system and the level and nature of banking policy interventions required to address challenges in the system. On this basis, OECD countries can be grouped into three categories, referring to the experience of a *systemic banking crisis* (Austria, Belgium, Denmark, Germany, Greece, Iceland, Ireland, Luxembourg, the Netherlands, Spain, the United Kingdom and the United States), *borderline systemic banking crisis* (France, Hungary, Italy, Portugal, Slovenia, Sweden and Switzerland) or *no banking crisis*.

The type of shock which countries experienced corresponds with the scale of impact on the public finances, as illustrated in Figure 1.9. The group which suffered from *systemic banking crisis* underwent a sharp deterioration of 8.2 percentage points in their fiscal balance, on average, from 2007 to 2009, as compared with a fall of 6.2 percentage points for the group that experienced no banking crisis. Moreover, Figure 1.9 also illustrates how the *direct* fiscal impacts of a banking crisis are aggravated further by indirect impacts on the real economy, through an attenuated banking sector, increased borrowing costs and depressed growth in economic activity. Countries unaffected by

banking crisis experienced a smaller decline of GDP in 2009 and were able to pick up growth in subsequent years without a relapse. At the same time, the group whose members underwent systemic banking crisis also had to contend with significantly lower economic growth; a factor to be borne in mind in assessing the scale of their fiscal effort in bringing the fiscal balance (expressed as a proportion of GDP) back onto a sustainable course.

Figure 1.9. **Fiscal impacts and growth patterns by different levels of banking crisis**



Sources: OECD (2015a), "OECD Economic Outlook No. 97 (Edition 2015/1)", *OECD Economic Outlook: Statistics and Projections* (database), http://dx.doi.org/10.1787/data-00759-en; Laeven, L. et Valencia, F. (2012) "Systemic Banking Crises Database: An Update", IMF Working Paper, WP/12/163 https://www.imf.org/external/pubs/ft/wp/2012/wp12163.pdf

StatLink http://dx.doi.org/ 10.1787/888933287977

It comes as no surprise that there are significant overlaps between the country categories as presented in both Figures 1.8 and 1.9, since the factors of "distinct market pressure" and "IMF/EU/ECB support" can be expected to correlate strongly with the occurrence of a banking crisis. Indeed, all of the countries in Category A (i.e. those with IMF/EU/ECB programmes) suffered some level of banking crisis, whereas most countries under "distinct market pressure" ended up going through a systemic or borderline banking crisis. A further noteworthy aspect is that countries with substantial deficits (i.e. with 2011 general government gross debt above 60% of GDP), even in the absence of "distinct market pressure", had a 50% chance of ending up with a systemic banking crisis.

Structure, nature and effectiveness of fiscal consolidation

Overview of fiscal consolidation strategies

Table 1.2 illustrates the degree of fiscal consolidation undertaken by OECD countries in the period 2009-14. The table shows that the level of consolidation has been very significant across most countries, with eight countries undergoing consolidation of greater than 4.5% of GDP up to 2014, with a further seven countries consolidating in the range 3-4.5% of GDP.

Table 1.2. **Fiscal consolidation across OECD countries, 2009-14**

	achieved 2009-2014	comment
Australia	▌▌	broad reductions including restrictions on indexation; Temporary Budget Repair Levy on higher earners
Austria	▌▌	broad reductions in subsidies, indexation, health reform; tax agreement with Swizerland / Liechtenstein
Belgium	▌▌	Growing emphasis on expenditure cuts to achieve fiscal consolidation
Canada	▌▌	Strategic Review / Strategic and Operating Review to identify savings; operating budget freeze in effect
Chile		Expenditure restrictions under previous administration to be eased, with focus on structural balance
Czech Republic	▌▌▌	Previous freezes and caps on expenditure being lifted as fiscal consolidation is "paused"
Denmark	▌▌▌	Steady consolidation process underpinned by new legal fiscal framework
Estonia	▌▌	incremental measures, including reforms to unemployment insurance
Finland	0	New, intensive spending review exercise completed in early 2015
France	▌▌▌	Measured fiscal correction in balance with growth-supporting initiatives. Spending ceiling strengthened
Germany	▌▌▌	Fiscal course-correction achieved through disciplined application of rules-based fiscal framework
Greece	▌▌▌▌	broad-based horizontal savings, targeted / sectioral savings and structural (longer-term) savings
Hungary	▌▌	Broad-ranging expenditure reductions, and focused tax measures; measured pace of fiscal correction
Iceland	▌▌▌▌	
Ireland	▌▌▌▌	Comprehensive expenditure reductions, revenue-raising measures and sustained fiscal correction
Italy	▌▌	Move from across-the-board savings to selective measures on basis of major spending review
Japan	▌	Efficiency-focused containment of expenditures, with measured increased in consumption tax
Korea	▌▌	Expenditure growth cap and streamlining of tax exemptions to maintain finances on stable course
Luxembourg	▌	Broad-based expenditure and revenue consolidation since 2011; new expenditure review process
Mexico		Revenue focus to date; "zero-based" public expenditure review planned
Netherlands	▌▌▌	Savings identified using evaluation mechanisms / spending reviews within fixed expenditure framework
New Zealand	▌▌▌	Targeted, efficiency-focused expenditure savings in context of cyclically-sensitive consolidation
Norway	0	No consolidation required; main fiscal policy challenge concerns prudent use of resource endowments
Poland	▌▌▌	Expenditure-focused savings factored into ceilings under MTEF (part of Multiannual State Financial Plan
Portugal	▌▌▌▌	Broad-based fiscal consolidation underway; expenditure ceilings have been strengthened
Slovak Republic	▌▌▌▌	Efficiency-focused spending savings, and streamlining of tax exemptions, in measured consolidation
Slovenia	▌	Broad-based expenditure reductions and revenue-raising measures now underway
Spain	▌▌▌▌	Broad-based expenditure reductions and revenue reforms now underway
Sweden	0	Tax-raising measures to create fiscal space for increased overall expenditure; gradual fiscal correction
Switzerland	0	Spending-based fiscal correction including targeted measures and across-the-board reductions
Turkey		After a counter-cyclical response to the crisis, the fiscal policy focus has shifted to supporting growth
United Kingdom	▌▌▌▌	Intensive expenditure-side consolidation underway, with strong efficiency focus to date
United States	▌▌▌▌	Structural expenditure reforms and revenue-raising measures; measured pace of fiscal correction

LEGEND

0 no significant fiscal consolidation

▌ >0 and ≤1.5% of GDP consolidation (1.5< ▌▌ ≤ 3%, 3< ▌▌▌ ≤ 4.5%, 4.5%< ▌▌▌▌)

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

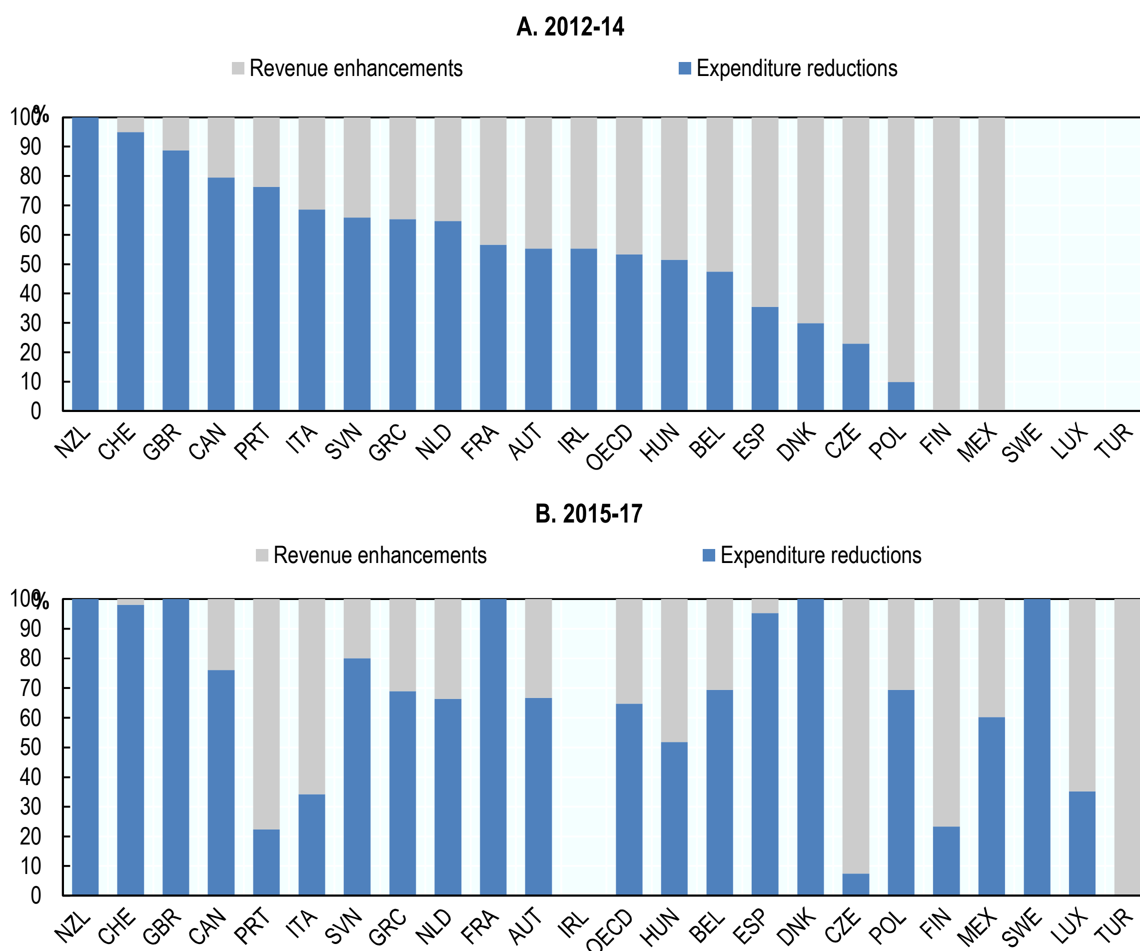
Balance between expenditure and revenue measures

With regard to the broad composition of consolidation, it is notable that the approaches taken have been quite diverse – both across countries, and over time within countries. Figure 1.10 shows the broad balance between expenditure and revenue measures introduced by OECD countries in the consolidation period 2012-14, and illustrates a broadly symmetrical spread of approaches across the OECD, with some countries (Canada, New Zealand, Switzerland and the United Kingdom) focusing

strongly upon expenditure-side measures, while others (Finland, Mexico, Spain) have had a strong revenue-raising focus up to now, and a majority of countries showing a broader balance between the two approaches. As illustrated in Panels A and B of Figure 1.10, it is notable that the focus on consolidation can shift over time, reflecting shifts in political preferences as well as economic considerations.

Figure 1.10. **Nature of fiscal consolidation across the OECD in 2012-17**

Share of expenditure reductions and revenue enhancements in fiscal consolidation



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

http://dx.doi.org/ 10.1787/888933287987

Spending review as a budgetary tool

The use of a “spending review” mechanism (see Box 1.2) is quite notable among countries that focus upon expenditure-side measures. Over half of OECD member countries report that they have conducted, or are planning to conduct spending reviews: seven OECD countries report the use of spending reviews to help identify specific

savings. Other countries, including Mexico and Germany, are considering the introduction of spending reviews as a budget policy tool.

Box 1.2. **Spending review**

Since the crisis, many OECD member countries have been striving to bring deficits and debts back to sustainable levels. This has ignited a renewed interest in spending review as a tool to improve the efficiency and effectiveness of public expenditure. A spending review is the process of identifying and weighing adopting savings options, based on the systematic scrutiny of baseline expenditure, which may take the form of efficiency reviews and/or strategic reviews, and may be either comprehensive in nature or more selectively-focused.

While recent experiences with spending review have been largely driven by the crisis and the need for fiscal consolidation, several OECD country experiences – Australia, Canada, Denmark, the Netherlands and the United Kingdom, for example – show that spending review can be much more than a tool for cutting expenditure. Properly designed, spending review can be an important tool to focus government on improving expenditure prioritisation. Given that the constrained fiscal policy choices are likely to remain a feature of budgeting in OECD countries in the future, there would appear to be value in establishing systematic spending review as a feature, rather than an ad hoc element, of the budget process.

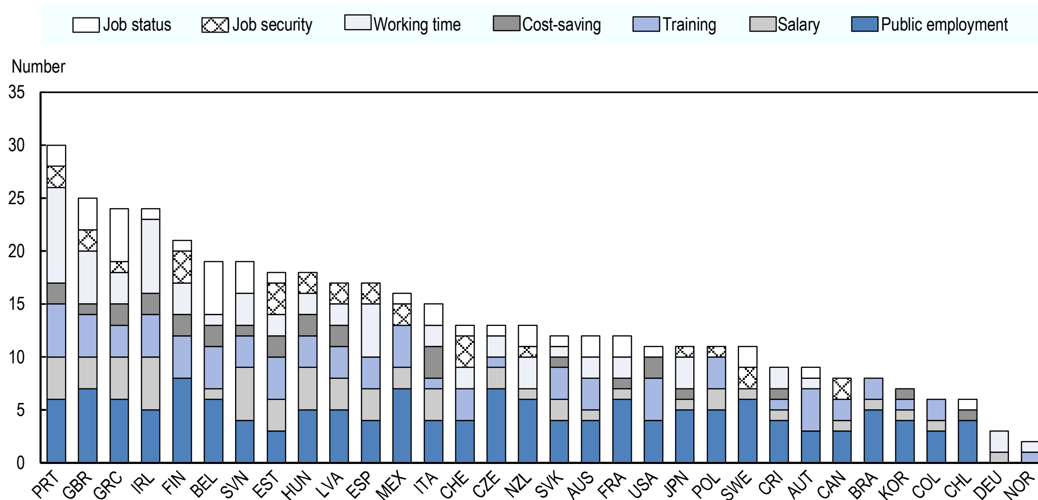
Source: OECD (2015e), Spending Reviews – Background note; Robinson, Marc (2014), "Spending reviews", *OECD Journal on Budgeting*, Vol. 13/2, http://dx.doi.org/10.1787/budget-13-5jz14bz8p2hd.

Case study: Public sector staffing and human resource management

As an illustration of how expenditure consolidation strategy is implemented in practice, the OECD has undertaken an analysis of budgetary impacts on human resource management (HRM) in the public sector, in parallel with the Survey of the State of Public Finances 2015. Compensation of employees accounted for 23.6% of public expenditures on average across OECD countries in 2013, and it is natural that governments will seek to find economies and efficiencies from this significant block of expenditure as part of a broader strategy of fiscal correction.

Across many countries, there has indeed been a renewed efficiency focus within the public sector, coupled in many cases with a broader human resource reform agenda, and balanced with the need to have productive, satisfied, innovative and high-performing employees. The OECD analysis indicates that the various HRM responses to fiscal consolidation can be grouped under seven headings or "bundles" (Figure 1.11), of which two – "employment reforms" and "training system reforms" - are the most commonly-adopted. The full analysis (see Annex A for more details) goes on to trace the impact of austerity-driven HRM reforms on issues of workplace attitude, job satisfaction and recommended policy responses for public sector managers.

Figure 1.11. **Overview of human resource management reforms, 2008-13**



Source: OECD (2014), *Survey on Managing Budgeting Constraints: Implications for HRM and Employment in Central Public Administration*, OECD.

http://dx.doi.org/ 10.1787/888933287990

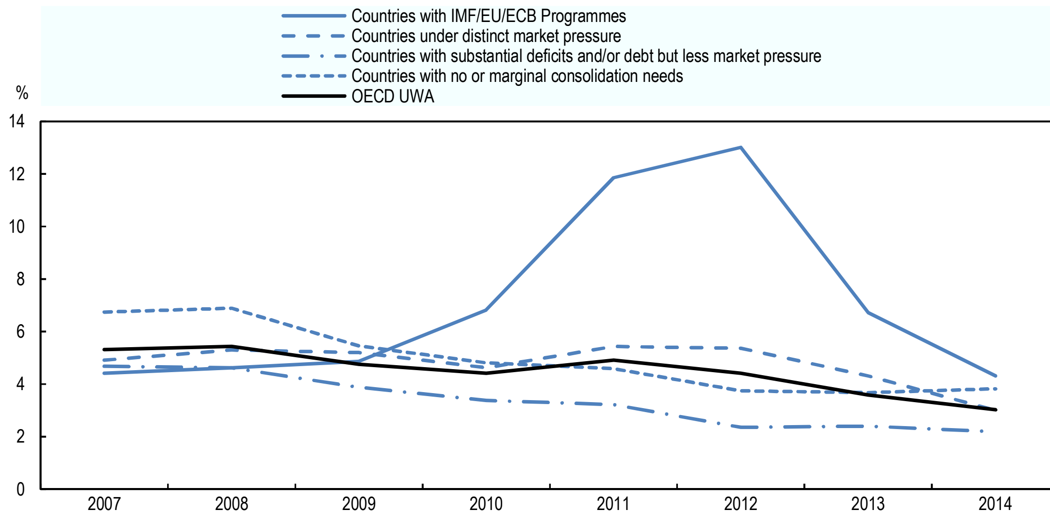
Assessing the effectiveness of fiscal consolidation strategies to date

The effectiveness of fiscal consolidation is a matter of country-specific, political and societal judgement, more than external measurement. Although fiscal consolidation has been underway in many OECD countries since 2009-10, the public debt remains on an upward course in many cases and the public finances remain in a vulnerable position. One indication of external confidence in the state of public finances is long-term bond yields. The crisis demonstrated that even sovereigns could lose access to bond markets as a result of acute fiscal stress. In particular, the long-term bond yields of countries with IMF/EU/ECB Programmes almost tripled from 4.4% in 2007 to 13% in 2012. Since then, bond yields have been decreasing markedly for those countries, and more steadily for OECD countries in general, reflecting both the stabilisation of public finances and the adoption of supportive monetary policy (Figure 1.12).

Future fiscal consolidation needs across OECD countries

Leaving aside the former country classifications and looking afresh at the various different consolidation strategies and outcomes, the patterns among countries based upon the scale of their consolidation – as set out in Table 1.3 – is striking. The table shows outstanding "fiscal consolidation needs", calculated on the basis of the additional consolidation requirements to reduce government debt to a figure of 60% of GDP by 2030. Alongside this, the table shows the public plans announced by OECD countries as of June 2015. The table shows that only five countries (Greece, New Zealand, Portugal, Spain and Sweden) envisage that consolidation of more than 3% of GDP will be implemented in the 2015-16 period. Looking forward, Mexico will be placing a stronger focus on expenditure savings, while the Swedish government envisages raising revenues to generate additional fiscal space.

Figure 1.12. **Long-term bond yields by country groups**



Note: OECD UWA is OECD unweighted average.

Source: OECD (2015a), "OECD Economic Outlook No. 97 (Edition 2015/1)", *OECD Economic Outlook: Statistics and Projections* (database), http://dx.doi.org/10.1787/data-00759-en.

StatLink http://dx.doi.org/ 10.1787/888933288008

The table also shows that, although OECD countries have achieved a considerable amount of fiscal consolidation from 2009 to 2014, there is still a significant gap left to attain a debt ratio of 60% of GDP by 2030. Therefore, additional fiscal consolidation will be needed beyond 2015-16 consolidation plans, most especially for those countries with very high consolidation needs (Austria, Belgium, Canada, Finland, France, Greece, Hungary, Italy, Japan, Portugal, Slovenia, Spain, the United Kingdom and the United States). While Greece has already made considerable progress in improving its structural fiscal balance, the scale of the debt overhang weighs upon the high consolidation needs that still lie ahead. The position of New Zealand is notable in that it envisages fiscal consolidation above and beyond the technically-calculated "consolidation need", due to the strong priority afforded under domestic policy to restoring the public finances to a very prudent level.

Table 1.3. **Future consolidation needs across OECD countries**

	Fiscal balances			*consolidation needs*	consolidation *planned*
	2007	*2009*	*2014*	*(a)*	*(b)*
(i) Low or no consolidation needs					
Australia	++	- - -	- -	0	
Estonia	++	- -	+	0	
Iceland	++++	- - - -	-	0	
Korea	+++	-	+	0	
Luxembourg	+++	-	+	0	▮
New Zealand	+++	- -	+	0	▮▮▮
Norway	++++	++++	++++	0	0
Switzerland	+	+	+	0	▮
Czech Republic	-	- - - -	- -	▮	0
Germany	+	- -	+	▮	0
Sweden	+++	-	- -	▮	▮▮▮
(ii) Moderate and high consolidation needs					
Ireland	+	- - - -	- - -	▮▮	0
Poland	- -	- - - -	- - -	▮▮	
Slovak Republic	- -	- - - -	- -	▮▮	▮
Denmark	++++	- -	+	▮▮▮	
Israel	-	- - - -	- - -	▮▮▮	
Netherlands	+	- - - -	- -	▮▮▮	▮▮
(iii) Very high consolidation needs					
Austria	-	- - - -	- -	▮▮▮▮	▮
Belgium	+	- - - -	- - -	▮▮▮▮	▮
Canada	+	- - -	- -	▮▮▮▮	0
Finland	++++	- -	- - -	▮▮▮▮	▮
France	- -	- - - -	- - -	▮▮▮▮	▮▮
Greece	- - - -	- - - -	- - -	▮▮▮▮	
Hungary	- - - -	- - - -	- -	▮▮▮▮	
Italy	-	- - - -	- -	▮▮▮▮	▮
Japan	- -	- - - -	- - - -	▮▮▮▮	
Portugal	- -	- - - -	- - -	▮▮▮▮	▮▮▮
Slovenia	-	- - - -	- - - -	▮▮▮▮	0
Spain	++	- - - -	- - - -	▮▮▮▮	▮▮▮
United Kingdom	- -	- - - -	- - - -	▮▮▮▮	▮▮▮
United States	- - -	- - - -	- - - -	▮▮▮▮	▮▮
Chile		- - -			
Mexico	+	-			▮
Turkey	-	++++			

LEGEND

\+ fiscal position in balance or in surplus (the number of + denotes the strength of surplus)
\- fiscal balances in deficit position (the number of - denotes the severity of deficit)
0 no significant fiscal consolidation
▮ >0 and ≤1.5% of GDP consolidation (1.5< ▮▮ ≤ 3%, 3< ▮▮▮ ≤ 4.5%, 4.5%< ▮▮▮▮)

(a) OECD calculations: consolidation required to meet 60% debt-to-GDP level by 2030
(b) planned consolidation 2015-2016

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

Summary of results on fiscal consolidation strategy

Beyond the obvious conclusions relating to countries with extremely positive (e.g. Norway) or extremely difficult (e.g. Greece, Japan) fiscal positions, the following points would appear to arise from the analysis:

- A **strong pre-crisis fiscal position, allied to even modest consolidation,** has generally led to small or no requirements for further consolidation (Korea, Luxembourg, New Zealand and Switzerland being exemplars, along with Germany which had a modest pre-crisis surplus). The notable exceptions are Denmark and Finland, both of which had a significant pre-crisis surplus and currently face high consolidation needs owing to country-specific circumstances.
- A **neutral or weak pre-crisis fiscal position, allied to modest consolidation,** has left countries requiring continued significant or strong consolidation over coming years (e.g. Austria, Belgium, Poland and the Slovak Republic). Indeed, even some countries with apparently strong pre-crisis fiscal positions (e.g. Canada, the Netherlands and Spain) have experienced difficulties in the later years of the crisis, due to the delayed onset of banking difficulties or to a lack of alacrity or urgency in responding to the challenges presented by the crisis.
- A **very weak pre-crisis fiscal position, even allied to strong consolidation,** has still left those countries requiring further significant or strong consolidation (e.g. Hungary, Portugal, the United Kingdom and the United States).

The fiscal policy experiences of the past seven years have underscored the wisdom and indeed the imperative of running a prudent, **counter-cyclical fiscal policy** during a favourable macroeconomic environment. Countries need to have sufficient fiscal room in good times in order to avail of accommodative, countervailing fiscal policy in bad times.

The fact that so few OECD countries – and only two of the OECD's largest seven economies (Canada and Germany) – were, in fact, running a surplus prior to the crisis suggests that the policy tools currently available, or as currently constituted, **do not provide the requisite incentives** for such a policy course to be pursued as the norm. The tools to align political incentives with fiscal policy imperatives, across both the political and economic "cycles", appear to be lacking in many OECD countries.

3. Fiscal rules and associated policy dilemmas

Fiscal rules and objectives

Seventeen OECD countries regard themselves as bound by legal rules that play a determining role in the setting of fiscal policy, as Table 1.4 illustrates. Switzerland's "debt brake" constitutional rule has proven a model for some OECD countries, notably Germany. Most OECD members within the European Union are members of the euro currency zone, which is subject to economic governance rules that have been significantly tightened over the period of the crisis, including under the European Fiscal Compact (to which Denmark, a non-euro zone EU member, has also subscribed). It is notable that some OECD countries within the European Union – Czech Republic, France and Hungary – while formally subject to the EU rules, regard themselves as retaining latitude to temper fiscal objectives by reference to broader pro-growth economic priorities. The Czech Republic and Hungary, which took action during the crisis to bring their deficits below the 3% ceiling that applies under EU treaties, no longer regard their fiscal policies

as being primarily guided by any fiscal rules. Norway's fiscal rule guards against excessive reliance on oil revenues within the budget process, and does not direct the course of fiscal policy *per se.*

Nine OECD countries do not have definite fiscal rules in place, although some have legal frameworks requiring clarity about fiscal objectives. The United Kingdom is not, in effect, subject to the EU-wide 3% fiscal deficit ceiling, and is instead governed by domestic budget responsibility legislation which requires the government in office to spell out its medium-term fiscal objectives. This broad model is also applied in Australia, Canada and New Zealand. In Chile, Japan, Korea and Turkey, national medium-term frameworks allow scope for the government to specify its fiscal plans. Fiscal goal-setting in the United States is a more complex affair, as the legislative and executive branches of government negotiate from year to year on the appropriate budgetary course, against the backdrop of statutory limits on appropriations.

Developments in fiscal rules in the wake of the global crisis

The global financial crisis has spurred a re-think of the fiscal framework in many OECD countries, and of the role to be played by fiscal rules and fiscal targets. In particular, the European Union's economic governance framework (as set out in its Treaties, Directives and Regulations) has been subjected to a series of reforms since 2011 (see Box 1.3). Germany adopted a debt brake rule in 2009 which emphasises balanced budgets, replacing the former "golden rule" (Box 1.4). In addition, the United Kingdom recently announced (June 2015) its plan to adopt a budget surplus law which will require the maintenance of a budget surplus when the economy is growing, and which will constrain governments from spending more than they receive in tax revenue in normal times.

Developing a well-designed fiscal framework using fiscal rules and targets that are suitable to country-specific macroeconomic circumstances is a key objective of the reforms introduced in many OECD countries. A recent OECD study (2015f) presents an analytical case for countries to establish fiscal rules which take account of macroeconomic variables such as the business cycle, trade openness and exposure to financial developments. It emphasises that prudent debt targets can serve as a viable "fiscal anchor" to ensure the sustainability of public finances while providing sufficient policy room to cope with adverse shocks. For higher income countries, a debt threshold is in the range of 70-90% of GDP is advocated; for euro area countries that do not have direct access to monetary policy levers, the debt threshold would be lower, ranging from 50-70% of GDP; and for emerging economies which are more exposed to capital flow reversals, the threshold is lower still, at around 30-50% of GDP. Furthermore, it stresses that in most countries it is preferable to combine a budget balance rule with an expenditure rule to achieve two objectives: anchoring fiscal policy expectations around a prudent debt level; and allowing for macroeconomic stabilisation that enhances economic growth, while limiting pro-cyclicality and over-spending. Under this model, the marginal benefit of adding a revenue rule is likely outweighed by its costs in terms of complexity and reduction in fiscal flexibility. Similarly, Andrle et al. (2015) also presents an analytical case for simplification of the overall fiscal governance framework design by introducing a single fiscal anchor (debt ratio) with a single operational rule – whether linked to expenditure growth, revenue growth, an overall balanced budget or a primary balanced budget, would be a matter for each country to decide.

Table 1.4. **Fiscal rules and objectives in OECD countries**

		Comment
Australia	○	Budget Repair Strategy to achieve 1% surplus by 2023-24
Austria	●	Euro-area fiscal rules, with domestic "debt brake"
Belgium	●	Fiscal balance targeted for 2018, in SGP context
Canada	○	Federal debt target of 25% GDP by 2021; balanced budgets by 2015/16
Chile	○	Structural fiscal balance targeted for 2018; previous reliance on expenditure cap now replaced with structural balance
Czech Republic	-	Fiscal targets de-emphasised as government prioritises growth
Denmark	●	European Fiscal Compact measures operational under new law; structural fiscal balance targeted by 2020
Estonia	●	Euro-area fiscal requirements transposed into domestic law
Finland	●	Government aims to bring debt ratio onto downward path by the end of its term; European Fiscal Compact transposed into domestic law
France	◖	SGP fiscal requirements in domestic law; applied as part of, and in balance with, the government's multi-dimensional agenda
Germany	●	Debt brake rule operates as an "anchor" for SGP-related framework
Greece	●	Euro-area fiscal requirements transposed into domestic law
Hungary	◖	Fiscal targets de-emphasised as government prioritises growth; debt brake introduced, will not apply in times of economic contraction
Iceland		
Ireland	●	Euro-area fiscal requirements transposed into domestic law
Italy	◖	Euro-area fiscal requirements transposed into domestic law; applied in balance with requirement to avoid unduly pro-cyclical measures
Japan	○	Halving of primary deficit by 2015; primary surplus targeted by 2020
Korea	○	Fiscal Management Plan sets objectives, with National Assembly input
Luxembourg	●	Euro-area fiscal requirements transposed into domestic law
Mexico		
Netherlands	●	Euro-area fiscal requirements transposed into domestic law, with fixed expenditure framework and revenue-side stabilisation
New Zealand	○	Return to fiscal surplus in 2014/15; reduce expenditure to 30% of GDP; reduce net debt to 20% of GDP by 2020
Norway		Rule insulates fiscal policy from oil-price volatility, and promotes cyclical smoothing
Poland	●	Domestic Stabilising Expenditure Rule; also subject to EU 3% deficit limit
Portugal	●	Euro-area fiscal requirements transposed into domestic law
Slovak Republic	●	Continued steady fiscal correction in line with Euro area rules
Slovenia	●	Urgent fiscal correction now underway in line with Euro area rules
Spain	●	Urgent fiscal correction now underway in line with Euro area rules
Sweden	●	Fiscal policy aligned towards target of fiscal surplus of 1% of GDP
Switzerland	●	Debt brake limits expenditure growth
Turkey	○	Plan to maintain tight fiscal control and achieve surplus in 2017
United Kingdom	○	Government sets out its objectives in Charter for Budget Responsibility; current target is structural balance and falling debt by 2016/17
United States	○	Adventitious budgetary goal-setting between branches of government

Legend

- ● 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

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

Box 1.3. **Changes to the EU Economic Governance Framework**

As a response to the 2010 European sovereign debt crisis, consecutive reforms, including the 2011 Six Pack, the 2012 Fiscal Compact and the 2013 Two Pack have been made. The key elements of the EU fiscal framework applicable to most EU countries (but not all) can be summarised as follows.

Countries must manage their public finances within fixed limits: The debt level and the deficit level must not exceed ceilings of 60% of GDP and 3% of GDP respectively; both expressed in general government terms. The public finances should be maintained close to a balanced position (i.e. a deficit of no more than 0.5% of GDP) in cyclically-adjusted terms, net of one-off factors. The growth in public expenditure must not exceed the underlying medium-term level of economic growth, unless it is financed by additional revenues.

Budgetary correction must proceed at a minimum pace: Any unduly high non-structural budget deficit must be corrected by 0.5% of GDP each year; while any excess above the debt limit of 60% of GDP must be reduced by one-twentieth each year.

Exceptions to these rules are very limited and there are financial penalties for non-compliance. The fiscal limits must be enshrined in national law and the national budget calendar coordinated.

Source: OECD (2015g), "Budget Review: Germany", *OECD Journal on Budgeting*, Vol. 14/2, http://dx.doi.org/10.1787/budget-14-5jrw4sxb32q4.

Box 1.4. **Germany's debt brake rule**

In 2009, the proposal to replace the golden rule with a debt brake rule was approved by the German Parliament and enshrined in the constitution. The objectives were to improve the sustainability of the national finances, with strengthened fiscal coordination among federal and sub-national governments while providing flexibility to deal with cyclical challenges. The core elements of the rule are as follows:

- Balanced Budgets: Federal government must balance revenues with expenditures in their budgets, as a fundamental principle. In normal economic circumstances, "balance" is assumed to be met for federal government when net borrowing does not exceed 0.35% of GDP.
- Symmetrical adjustments over the economic cycle: Automatic stabilisers will operate freely and fully over the cycle. In other words, cyclical deficits may be run in a downturn, and cyclical surpluses must be run in an upturn.
- Limited exceptions: Additional borrowing is allowed to deal with natural disasters and exceptional emergencies beyond state control.

Source: OECD (2015g), "Budget Review: Germany", *OECD Journal on Budgeting*, Vol. 14/2, http://dx.doi.org/10.1787/budget-14-5jrw4sxb32q4.

In summary, there would appear to be a growing analytical case that fiscal rules, which were too complex to be effective in the run-up to the crisis, should in general terms be made **simpler and clearer to enhance compliance, rather than made more complex still.** A simpler approach could, and should, still allow for adaptations to country-specific circumstances.

4. Protecting and promoting economic growth: Country strategies

A sustained fiscal correction, such as has been experienced across the OECD from 2010, carries the risk of impairing economic growth through exacerbating pro-cyclical tendencies and further depressing demand and investment: indeed the question of the correct fiscal stance for governments to adopt, in the face of sustained low growth and fiscal imbalance, has been a highly contentious area of debate among economists and policy makers.

To reconcile fiscal sustainability and growth objectives, some OECD countries have pursued carefully focused and nuanced consolidation strategies, coupling an efficiency dimension with targeted initiatives to spur growth. In addition, the timing, speed and degree of fiscal correction are in some cases carefully planned to minimise negative economic impacts. Moreover, the instruments of monetary policy have increasingly been brought to bear, across many OECD countries and regions, to provide a supportive environment for economic growth and confidence.

Table 1.5 shows, and as summarised below, provides an overview of the range and complexity of approaches adopted in various OECD countries. Some recurring themes are as follows:

1. **Coupling fiscal correction with structural reform**. Some countries have put the primary focus upon structural economic reforms, including labour market improvement, reduction of “red tape” and liberalisation of professions, while maintaining a firm course of fiscal correction. The countries in this category – notably Ireland, Portugal and Spain – are the ones that have had the least room for fiscal manoeuvre, and indeed some governments in this category have justified the rigorous fiscal correction as a necessary means of supporting the confidence necessary for investment and growth to be sustained.

2. **Fiscal relaxation or stimulus**. A second approach has been to undertake growth-supporting fiscal stimulus, either through enhanced prioritisation of capital investment (notably Canada, Chile and Turkey), or through consciously tempering the fiscal correction efforts by adopting a relatively relaxed fiscal stance (Czech Republic).

3. **Fiscal relaxation plus structural reform**. A third approach has been to adopt a relatively relaxed fiscal policy (or at least an attenuation of the fiscal correction), while making a sustained effort to undertake structural economic reforms. France and Hungary have “paused” or re-scheduled fiscal correction while emphasising broad-ranging reforms.

4. **Complex, multi-faceted policy responses**. Some countries are harder to categorise definitively. The United Kingdom is publicly committed to ongoing medium-term fiscal consolidation and it has a strong economic reform agenda (arguing for Category 1 above), yet it has also devoted significant resources towards growth-friendly investment, thus attenuating its fiscal correction course, and indeed it has

re-scheduled the timeline for achieving structural balance (arguing for Category 3). The United States responded to the early phase of the crisis with stimulus measures (2009 Recovery Act, 2010 reduction of payroll taxes) but in later years the 2011 Budget Control Act, with its constraints upon appropriations and sequestration requirements, has formed the starting point for budgetary negotiations. Japan has pursued a broad-based strategy to utilise the various levers of economic policy in support of growth, with a primary focus upon accommodative monetary policy plus intensive structural reform and sound fiscal policy (the "three arrows" of the "Abenomics" strategy), with a heightened focus upon fiscal stabilisation from 2013 in order to remove potential unease concerning the evolution of the public finances.

5. Models of fiscal responsibility: development of fiscal institutions

Role and development of independent fiscal institutions

As set out in the "Recommendation of the Council on Budgetary Governance" (OECD, 2015h), the credibility of fiscal rules and fiscal objectives may be enhanced by the introduction of independent fiscal institutions (IFIs), or other structured institutional arrangements to promote objectivity and professionalism in fiscal forecasting and monitoring. Indeed, Table 1.6 shows that 25 OECD countries now have some such arrangements in place, of which 15 countries now have well-established IFIs. The contrast with the pre-crisis position is very marked: only six IFIs were well-established in 2008, with a further three bodies (the Swedish Fiscal Policy Council, Canadian Parliamentary Budget Office and Hungarian Fiscal Council) very recently in place.

The details shown in Table 1.6 demonstrate the breadth of functions currently carried out by IFIs, which can be grouped as follows:

- **Technical economic functions,** such as preparing or endorsing macroeconomic forecasts, or calculating the structural fiscal balance. The Dutch CPB, the United Kingdom's OBR and Chile's Fiscal Advisory Council exercise such functions.
- **Public transparency and accountability functions,** e.g. building the capacity of parliament to engage with the budgetary process. The "parliamentary budget offices" (PBOs) in Canada, Australia and Italy are examples of this function, along with the National Assembly Budget Office of Korea and the Congressional Budget Office of the United States. The CBO is something of an "outlier" among OECD countries in terms of the scale and significance of its budgetary and policy analysis – reflecting its role in support of the US Congress which itself wields considerable budget-making powers.
- **Policy costings** to inform policy development and debate among politicians and the public. Australia's PBO and the Dutch CPB exercises a distinct function in this regard and Canada has recently moved to promote independent costing capacity within the public service. Again, the US CBO has long-standing functions in this regard.
- A **"fiscal watchdog" role** with regard to the appropriateness – or otherwise – of the government's fiscal policy. Assessment of compliance with fiscal rules is one of the most common roles for fiscal councils that have been established in recent years among the euro currency area, in light of the new economic governance rules for the area. The Irish Fiscal Advisory Council also has a mandate to assess the "prudence" of the government's fiscal policy stance.

Table 1.5. **Strategies to support economic growth during fiscal consolidation**

		Comment
Australia		
Austria	◈	Strengthening of investments in education, universities, R&D and infrastructure to support growth
Belgium	◇	Some measures to reduce cost of labour relative to neighbouring countries
Canada	◈	Maintaining of major infrastructure investments, supported by capital carry-forward facility
Chile	◈	Major increases in capital investment in support of economic activity
Czech Republic	◈	Distinctive approach with fiscal targets displaced in favour of pro-growth fiscal policy stance
Denmark	◆	Maintaining of high public investment levels, and "Growth Plan DK" plan to promote dynamism and reform
Estonia	◇	Estonia 2020' reform plan to increase productivity and employment; education and labour-market focus
Finland	◈	Sale of state assets from 2015 to be used for growth- and job-friendly capital investment
France	◆	Strong focus on reducing red tape and structural economic reform, while attenuating the fiscal correction
Germany	◈	Additional funds allocated for investment in transport infrastructure
Greece	◇	
Hungary	◆	Tax reforms and administrative simplification measures to promote growth; relaxed fiscal policy stance
Iceland		
Ireland	◇	Annual Action Plan for Jobs, structural economic reforms and supportive tax reforms
Israel		
Italy	◆	Pace of fiscal consolidation has been slowed to avoid undue pro-cyclicality; tax-based labour incentives
Japan	‡	High-profile growth strategy of bold monetary policy, flexible fiscal policy and structural economic reform
Korea	◆	Expansionary fiscal policy stance and structural economic reforms
Luxembourg	-	Stimulus measures adopted in 2010-11 but no specific measures in place at present
Mexico	◆	Fiscal stimulus to shield growth; fiscal reform and simplification drive to support economic development
Netherlands	◈	Cyclically-sensitive fiscal policy instruments, with some structural measures to protect potential growth
New Zealand	◆	Automatic stabilisers operated in early part of economic crisis; extra investments via state asset proceeds
Norway	-	No particular growth-related fiscal strategy is in place
Poland	◈	Relaxed pace of fiscal consolidation to avoid undue pro-cyclicality
Portugal	◇	Some targeted growth-friendly tax reforms, in addition to fiscal correction focus
Slovak Republic	◆	Structural economic reforms focused upon labour market; relatively relaxed fiscal adjustment
Slovenia	◈	Investment-oriented budget has been submitted, including measures to attract R&D and FDI
Spain	◇	Structural economic reforms focused upon labour market, financial sector and tax reforms
Sweden	-	New administration will prioritise education, labour market reforms, infrastructure and healthcare
Switzerland	◈	Counter-cyclical fiscal policy tools
Turkey	◈	Major infrastructure investment programme
United Kingdom	‡	Fiscal discipline commitment; intensive structural reform including red-tape reduction; some capital stimulus
United States	‡	Stimulus measures in wake of the crisis; subsequent sequestration measures subject to negotiation

Legend

◆ 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

‡ Complex, multi-faceted approach to supporting economic growth

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

Table 1.6. **Role and status of independent fiscal institutions in OECD countries**

	2008	2014	Comment on 2014 position
Australia	-	■	Parliamentary Budget Office (PBO) (2012) provides independent analysis of the budget cycle, fiscal policy, and budget costings. A 10-year forecasting role has been proposed
Austria	■	■	Fiscal Advisory Council (FISK) now endorses fiscal forecasts and provides fiscal policy advice. Austrian Institute of Economic Research (WIFO) provides independent short-term to medium-term macroeconomic forecasts for the Ministry of Finance.
Belgium	■	■	Independent Federal Planning Bureau produces official forecasts. High Council of Finance (HCF) mandate expanded in 2013 to include policy advice and monitoring.
Canada	□	■	Parliamentary Budget Office (2008) provides independent analysis on budgetary issues; also Costing Centre of Expertise being established to promote capacity within civil service
Chile	-	□	Fiscal Advisory Council established in 2013 to provide technical guidance on structural balance calculations and on general fiscal matters
Czech Republic	-	-	No IFI in place, although a new National Fiscal Council is planned under new legislation
Denmark	-	□	Economic Council mandate recently expanded to assesses fiscal forecasts and monitor compliance with fiscal objectives and expenditure ceilings.
Estonia		□	Fiscal council (2014) to assess macro-fiscal forecasts and compliance with fiscal rules
Finland	-	□	Academic Council for Economic Policy Council (2014) assesses forecasts and monitors fiscal policy objectives. National audit office unit monitors fiscal regulations / procedures
France	-	■	High Council of Public Finances (2012), independent unit within national audit office, assesses economic forecasts and whether structural fiscal balance is on course
Germany	-	□	Government's economic forecasts strongly influenced by expert professional inputs. New Independent Advisory Board (Stability Council) assesses compliance with Fiscal Compact
Greece	-	□	Hellenic Parliamentary Budget Office (HPBO) provides fiscal policy analysis and monitoring, including of the budgetary forecasts. Proposal to elevate status to official IFI
Hungary	□	■	Fiscal Council (2008) must sign off on feasibility of State Budget in light of debt rule
Iceland	-	-	No IFI in place
Ireland	-	■	Irish Fiscal Advisory Council (2011) endorses economic forecasts and critiques fiscal stance
Israel	-	-	No IFI in place
Italy	-	□	Parliamentary Budget Office monitors fiscal developments and compliance with rules
Japan	-	-	No IFI in place. Broadly-constituted Fiscal System Council offers advice to Minister.
Korea	■	■	National Assembly Budget Office (2003) facilitates parliamentary engagement on budget figures and objectives
Luxembourg	-	□	*Conseil national des finances publiques* (2014) assesses fiscal forecasts and monitors compliance with rules
Mexico	■	■	Centre for Public Finance Studies analyses the public finances for the Congress
Netherlands	■	■	*De facto* independent CPB (Bureau for Economic Policy Analysis) (1989) produces official economic forecasts; Council of State has assumed monitoring functions re fiscal rules
New Zealand	-	-	No IFI in place
Norway	-	-	No IFI in place
Poland	-	-	No IFI in place
Portugal	-	■	Technical Budget Support Unit (UTAO) facilitates parliamentary scrutiny; Public Finance Council now provides an opinion on official macroeconomic forecasts
Slovak Republic	-	■	Official forecasts approved by advisory Macroeconomic Forecasting Committee. Council for Budget Responsibility independently assesses fiscal performance.
Slovenia	-	□	Institute of Macroeconomic Analysis and Development prepares official forecasts; new IFI under consideration in context of Euro area rules. (2009 Fiscal Council now defunct)
Spain	-	□	Independent Fiscal Responsibility Authority (AIREF) endorses the government's macroeconomic forecasts and may make recommendations in this regard
Sweden	□	■	Fiscal Policy Council (FPC) assesses fiscal policy course and promotes public debate. It may also review and assess the quality of forecasts.
Switzerland	-	-	No IFI in place
Turkey	-	-	No IFI in place
United Kingdom	-	■	Office of Budget Responsibility prepares official macroeconomic forecasts and assesses fiscal policy course by reference to public objectives; also sustainability analysis.
United States	■	■	Congressional Budget Office (1975) provides authoritative independent analysis on fiscal / budgetary measures at both macro and micro levels

Legend

■	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

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

- **Broader fiscal policy comment and advice**. Sweden's Fiscal Policy Council exercises such a role, and Japan's broadly constituted Fiscal System Council – while not an "independent fiscal institution" in the strict sense – provides useful policy advice for the consideration of the Minister for Finance.

The relative efficacy and usefulness of IFIs, and other models of channelling professional, independent input to the budgetary process, remain to be definitively established, although there is analytical support for the idea that IFIs tend to support the accuracy of fiscal forecastings (see, e.g. Debrun and Kinda, 2014). In particular, as many OECD countries move from the acute phase of fiscal correction towards a recovery phase, IFIs have a chance to establish their value in promoting an informed public and political discourse about fiscal policy options and risks.

6. Involving parliaments and citizens

As a response to rising unemployment and public debt, the level of public trust in government has declined by 3 percentage points in OECD countries over the course of the economic crisis (see OECD, 2015g). As part of the OECD's broader trust strategy, increased attention is being paid to enhanced transparency, engagement and participation throughout public governance. New information and communication technologies (ICTs) allow for the disclosure of a wide range of budgetary information, facilitating access for various stakeholders, including civil society organizations (CSOs), parliaments and citizens. In order to foster better policies and understand how economic decision making affects them, people face the challenging task of accessing the often opaque, technical processes of budgeting.

The "Recommendation of the Council on Budgetary Governance" (OECD, 2015f) calls for "an inclusive, participative and realistic debate on budgetary choices" by offering opportunities for the parliament and its committees to engage with the budget process "at all key stages of the budget cycle, both *ex ante* and *ex post* as appropriate", and by "facilitating the engagement of parliaments, citizens and civil society organisations in a realistic debate about key priorities, trade-offs, opportunity costs and value for money."

Given the sensitivities that come with budgetary decision making in a time of consolidation, it is informative to see how OECD member countries have sought to involve parliaments and citizens throughout the recent period, as illustrated in Table 1.7.

Most OECD countries have a strong tradition of formal parliamentary authorisation of the budget, extending in several cases to the ability to propose modifications to draft budget proposals from the executive. However, the United States is an "outlier" among OECD countries in that the parliament, as a co-equal branch of government, has strong budgeting prerogatives. Beyond the United States, it is notable that no OECD country has yet moved to engage either parliament or the public in a substantive manner with the processes of budgetary formulation, oversight and accountability, to the full extent envisaged in the Budgetary Governance Recommendation.

However, there is a more general pattern of enhanced transparency and steadily enhanced engagement across many OECD countries over recent years. A small number of countries (Canada, France and Korea) have taken initiatives to enhance parliamentary scrutiny and involvement, while a larger number (notably Czech Republic, Finland, Germany, Ireland, Luxembourg, Slovak Republic, Spain and the United States) have introduced web- or tablet-related initiatives to promote public accessibility and "budget literacy". The Czech Republic and Portugal have introduced a "citizen's budget" while New Zealand has sought to promote civic engagement in budgeting matters.

Table 1.7. **Engagement of parliament and citizens in budgeting issues**

		Comment
Australia	▷	PBO has enhanced parliament engagement capacity; some civic engagement in performance audit
Austria	-	
Belgium	-	
Canada	▷	Streamlined estimates, online searchable InfoBase of financial reporting documents
Chile	-	
Czech Republic	▷	Open data portal (data.mfcr.cz) and "Citizen's Budget" providing accessible budget data
Denmark	-	
Estonia	-	
Finland	▷	Budget data available in open formats and budget overview available in tablet-friendly version
France	▷	View of parliament to be obtained on outcome of annual spending reviews
Germany	▷	Online information portal for citizens. Parliament has long-standing engagement in budget process
Greece	-	
Hungary	-	
Iceland		
Ireland	▷	Online information on expenditure allocations and performance metrics (irelandstat.gov.ie)
Italy	▷	Open data portals for central/regional government expenditure and for the State budget
Japan	▷	Accessible budget fact-sheets available to public. Diet receives summary of draft budget
Korea	▷	Extra time for parliamentary scrutiny of budget; each ministry to maintain budget status on internet
Luxembourg	▷	Budget documents and data available to the public on user-friendly website (budget.public.lu)
Mexico	▷	Extensive budget transparency portal (www.transparenciapresupuestaria.gob.mx)
Netherlands	-	
New Zealand	▷	Initiatives under way to promote civic engagement with budgetary policy-making
Norway	-	
Poland	-	
Portugal	▷	"Citizen's Budget" introduced in 2013; "To Know the Budget" online initiative in 2015
Slovak Republic	▷	Web portal provides information for citizens on budget structure and processes
Slovenia	-	
Spain	▷	General measures to promote transparency and access, incl. new transaprency website
Sweden	-	
Switzerland	-	
Turkey	-	
United Kingdom	-	
United States	▶	Congress is co-equal in budgeting; website (performance.gov) provides data on public goals

Legend

▶ 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

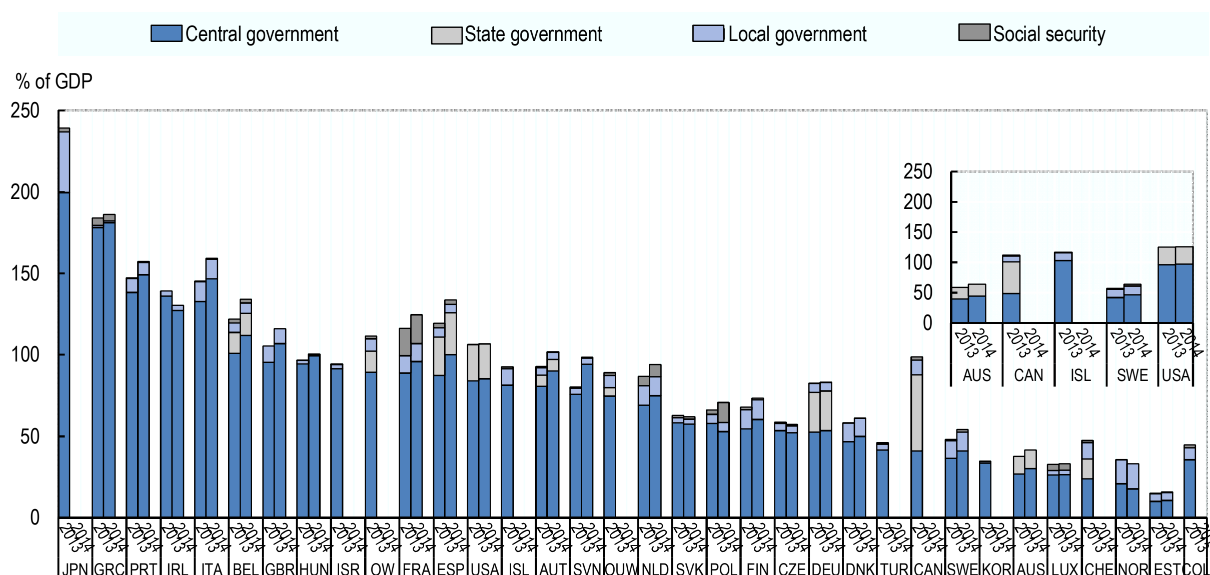
Source: OECD (2015d), *State of Public Finances Survey*.

7. Sub-national budgetary governance: Key themes

Chapter 3 provides a detailed analysis of the role and impact of sub-national government finances on overall budgetary management. However there are some core elements of this analysis that should be highlighted as part of the broader narrative on *The State of Public Finances* in the wake of the economic crisis.

The debt of sub-national governments (SNGs) represented only 13% of GDP on average in OECD countries in 2013 (unweight average across individual countries: the weighted average across the OECD area as a whole is 23.8% of GDP), and 17% of overall public debt (see Figure 1.13). The figures for SNG debt are considerably higher in Canada (61.2%) and Japan (37.3%), while the figures for Germany, Spain and the United States are all around 29% of GDP.

Figure 1.13. **Government gross debts across levels of government as percentage of GDP, 2013 and 2014**



Sources: OECD (2015c), *OECD National Accounts Statistics* (database), http://dx.doi.org/10.1787/na-data-en; European Commission (2015), *Government Finance Statistics* (database), Eurostat, http://ec.europa.eu/Eurostat/web/government-finance-statistics/data/database.

StatLink http://dx.doi.org/ 10.1787/888933288014

The distribution of overall debt across levels of government has seen an increase in the SNG share of debt by 4.2 percentage points on average over the period 2007-13. However, a considerable decline in the SNG share of debt has taken place in some OECD countries, e.g. Estonia (11.8 percentage points), Denmark (8.9 percentage points) and the United Kingdom (8.3 percentage points). In all of these cases, overall government debt has in general been on the increase, and the relative decline in SNG debt can be attributed to its lower rate of growth as compared with central-level debt.

There are a number of reasons why the public finances at SNG level demand special attention:

- In general, SNGs enjoy less autonomy for improving their fiscal situation than central government (CG) (Vammalle and Hulbert, 2013), owing to their smaller revenue base, limited autonomy to increase revenues and higher reliance on transfers.
- In addition, the expenditures for which SNGs are responsible are, in many cases, either mandatory or difficult to cut owing to high political and social costs. On average, SNGs spend 50% of their budgets on education, health and social protection. Some of these areas are vulnerable to demographic pressures, and in other cases the rules and standards of expenditure delivery are dictated by central government.
- Fiscal rules often allow SNGs comparatively little room for manoeuvre in response to cyclical fluctuations, with restricted access to debt financing, leading to direct impacts on expenditures when revenues fall. For example, almost all states in the United States have a balanced budget rule in their constitution, and wide-ranging expenditure cuts were implemented in 2008-09 during the early stages of the global financial crisis.
- SNGs sometimes have power to establish autonomous agencies whose finances do not appear on the national accounts, potentially giving rise to contingent liabilities that are difficult to monitor.

OECD countries and SNGs have adopted a range of tools and mechanisms to keep SNG finances in check and to address some of the challenges outlined above:

- A range of tools are used by governments to help in the medium-term management of SNG budgets. For example **rainy day funds** are used to smooth out cyclical revenue in many federal or quasi-federal countries: Canada, Finland, Germany, Mexico, Sweden, Switzerland and the United States. In the United States, nearly all states have introduced some form of stabilisation fund over the past two decades, and many US cities benefit from a type of rainy day fund known as “ending balances”, estimated to represent 12.7% of cities’ revenues in 2012 (down from 25% prior to the crisis) (Box 1.5).
- **Fiscal rules**: In the context of managing SNG finances, the types of fiscal rules fall under three categories:
  - balanced budget rules, including golden rules
  - borrowing constraints
  - expenditure limits.

Box 1.5. **Rainy day funds to address cyclical shocks**

Several countries have introduced "rainy day" funds for sub-national governments. These are stabilisation funds which accumulate reserves in periods of growth and disburse them in times of fiscal stress, to compensate for declines in SNG revenues. The creation of rainy day funds is an alternative to the optimisation of SNG revenues sources in order to reduce the volatility of sub-national revenues. For instance, as of January 2013 county councils in Sweden are allowed to build such funds to transfers budget surpluses from one year to another.

The most well documented use of rainy day funds is that of US states. During the last two decades, nearly all states have introduced some form of stabilisation fund – although the amounts saved in those funds vary widely from one state to another. Tight rules regulate the accumulation of funds in these entities. In most states, total funds accumulated must be under 5% of a state's budget; in others, the limit is at 10%, and a few states have no limit on the amount they can save in stabilisation funds. Research tends to find that rainy day funds reduce the volatility of SNG revenues and expenditures, but they have not proven sufficient to balance such a deep crisis as that of 2009-10.

US cities also benefit from a type of rainy day fund, called "ending balances". Ending balances are reserves used by cities to smooth fluctuations of revenues. In contrast to states' rainy day funds, there are no trigger mechanisms to force the release of the funds. In 2012, a report estimated that ending balances represented roughly 12.7 % of cities' expenditures (down from 25% prior to the recession).

Rainy day funds may be created by SNGs themselves, or introduced by central governments. This is the case for instance in Mexico, where the federal government manages the *Fondo de Estabilization de Ingresos de las Etidades Federativas* (FEIEF). This fund is used to provide additional revenues to federated entities when grants from the CG are reduced in times of fiscal stress.

Source: Vammalle, C., R. Ahrend and C. Hulbert (2014), "A sub-national perspective on financing investment for growth II - Creating fiscal space for public investment: The role of institutions", *OECD Regional Development Working Papers*, No. 2014/06, OECD Publishing, http://dx.doi.org/10.1787/5jz3zvxc53bt-en.

Chapter 3 provides a detailed assessment of the effectiveness of these rules and examples of initiatives and refinements that have been introduced over recent years:

- **Inter-governmental co-ordination bodies and procedures:** Many federal and quasi-federal countries recognise that all levels of government must act in a co-ordinated manner, while respecting legal and constitutional prerogatives, to ensure the national finances are managed responsibly. Examples of national co-ordination bodies to facilitate such an arrangement are the Australian Loan Council, Belgium's High Council on Finance, Germany's Stability Council and Spain's Fiscal and Financial Policy Council. Austria has in recent years adopted an Internal Stability Pact to promote co-ordinated action and Italy has introduced a similar Domestic Stability Pact.

- **Expenditure efficiency initiatives:** For example, several OECD countries have introduced reforms to improve efficiency and to minimise the fiscal risks associated with health sector spending at both central government and SNG level.

8. Other specific reforms in budgetary governance

The "Recommendation of the Council on Budgetary Governance" (OECD, 2015f) presents a multi-dimensional framework comprised of ten principles of good practice (see Box 1.6) and qualitative/contextual guidance on their application. In general terms, the Recommendation – based on analysis and consideration by the OECD Senior Budget Officials – envisages a coherent, inter-connected and mutually supportive set of practices that underpin sound, responsive budgeting.

Box 1.6. **OECD's ten principles of budgetary governance**

1. Manage budgets within clear, credible and predictable limits for fiscal policy.
2. Closely align budgets with the medium-term strategic priorities of government.
3. Design the capital budgeting framework in order to meet national development needs in a cost-effective and coherent manner.
4. Ensure that budget documents and data are open, transparent and accessible.
5. Provide for an inclusive, participative and realistic debate on budgetary choices.
6. Present a comprehensive, accurate and reliable account of the public finance.
7. Actively plan, manage and monitor budget execution.
8. Ensure that performance, evaluation and value for money are integral to the budget process.
9. Identify, assess and manage prudently longer-term sustainability and other fiscal risks.
10. Promote the integrity and quality of budgetary forecasts, fiscal plans and budgetary implementation through rigorous quality assurance including independent audit.

Source: OECD (2015f), "Recommendation of the Council on Budgetary Governance", 18 February, www.oecd.org/gov/budgeting/Recommendation-of-the-Council-on-Budgetary-Governance.pdf.

Table 1.8 outlines the degree to which OECD countries have prioritised the application of these principles to date within their national frameworks, in the context of the budgetary consolidation agenda. While 3 countries (Austria, Canada and Ireland) have implemented broad-based budgetary reforms, a further 13 OECD countries have taken some level of action to progress budgetary reform. While diverse aspects of budgeting are touched upon, the most popular reform themes are **performance management** (11 countries), strengthening of **medium-term frameworks** for budgeting (9 countries) and development of **spending review** procedures (4 countries) (see also the spending review section above in this regard). However, there is a large minority of OECD countries that report little or no significant progress in these areas over recent years.

Table 1.8. **Intensity of budgetary reform during fiscal consolidation**

	Budget reform intensity	Comment
Australia		
Austria	▲	MTEF, performance budgeting, gender budgeting; similar reforms implemented in some Länder
Belgium	-	
Canada	▲	Streamlined spending review, focus on performance objectives, effective MTEF, accrual information
Chile	△	Strong evaluation focus, performance budgeting
Czech Republic	-	
Denmark	△	New guidelines on perfomance management; strengthened multi-year spending ceilings
Estonia	-	
Finland	-	
France	△	Ongoing spending review integrated into budget calendar, and streamlining of performance budget
Germany	△	Top-down multi-year fiscal management; some additional performance narrative with budget
Greece		
Hungary	-	
Iceland		
Ireland	▲	MTEF, performance budgeting, periodic spending review and ongoing evaluation focus
Italy		
Japan	△	Strong evaluation focus, and greater use of performance-related information in budget cycle
Korea	△	Performance budgeting and MTEF
Luxembourg	-	
Mexico		
Netherlands	△	Streamlining of performance budget; strengthening of MTEF
New Zealand	△	Performance focus; inter-generational equity principle established in law
Norway	-	No particularly marked budgetary reform initiatives
Poland	-	No particularly marked budgetary reform initiatives
Portugal	△	Strengthened MTEF
Slovak Republic	-	
Slovenia	-	
Spain	△	Enhanced budget accuracy, transparency and surveillance in context of 2011 constitutional reform
Sweden	-	
Switzerland	-	
Turkey	△	Some developments on MTEF and programme budgeting
United Kingdom	△	Ongoing refinement of performance budgeting, multi-year budgeting; welfare spending cap
United States	△	Distinctive performance approach with organisational HR focus; strategic spending reviews underway

Legend

▲ 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

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

References

Andrle, M. et al. (2015) "Reforming Fiscal Governance in the European Union", *Staff Discussion Notes*, No. 15/9, International Money Fund, Washington DC, www.imf.org/external/pubs/cat/longres.aspx?sk=42932.

Debrun, X. and T. Kinda (2014), "Strengthening Post-Crisis Fiscal Credibility – Fiscal Councils on the Rise: A New Dataset", *IMF Working Paper*, WP/14/58, www.imf.org/external/pubs/ft/wp/2014/wp1458.pdf.

European Commission (2015), *Government Finance Statistics* (database), Eurostat, http://ec.europa.eu/Eurostat/web/government-finance-statistics/data/database.

OECD (2015a), "OECD Economic Outlook No. 97 (Edition 2015/1)", *OECD Economic Outlook: Statistics and Projections* (database), http://dx.doi.org/10.1787/data-00759-en.

OECD (2015b), OECD Economic Outlook, Interim Report September 2015, OECD Publishing, Paris, http://dx.doi.org/10.1787/eco_outlook-v2015-sup1-en.

OECD (2015c), *OECD National Accounts Statistics* (database), http://dx.doi.org/10.1787/na-data-en.

OECD (2015d), *State of Public Finances Survey,* Unpublished internal document.

OECD (2015e) Spending Reviews – Background note, Unpublished internal document

OECD (2015f), "Achieving prudent debt targets using fiscal rules", *OECD Economics Department Policy Brief*, No. 28, July 2015, www.oecd.org/eco/achieving-prudent-debt-targets-using-fiscal-rules.htm

OECD (2015g), "Budget review: Germany", *OECD Journal on Budgeting*, Vol. 14/2, http://dx.doi.org/10.1787/budget-14-5jrw4sxb32q4.

OECD (2015h), "Recommendation of the Council on Budgetary Governance", 18 February, www.oecd.org/gov/budgeting/Recommendation-of-the-Council-on-Budgetary-Governance.pdf.

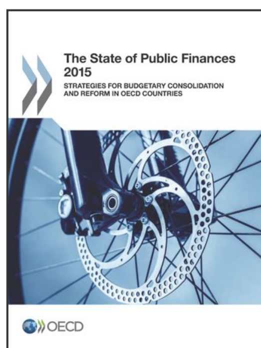
OECD (2014), *Survey on Managing Budgeting Constraints: Implications for HRM and Employment in Central Public Administration*, OECD.

OECD (2012), *Restoring Public Finances, 2012 Update*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264179455-en.

OECD (2011), *Restoring Public Finances,* www.oecd.org/gov/budgeting/47558957.pdf.

Robinson, Marc (2014), "Spending reviews", *OECD Journal on Budgeting*, Vol. 13/2, http://dx.doi.org/10.1787/budget-13-5jz14bz8p2hd.

Vammalle, C., R. Ahrend and C. Hulbert (2014), "A sub-national perspective on financing investment for growth II - Creating fiscal space for public investment: The role of institutions", *OECD Regional Development Working Papers*, No. 2014/06, OECD Publishing, http://dx.doi.org/10.1787/5jz3zvxc53bt-en.



From:

The State of Public Finances 2015

Strategies for Budgetary Consolidation and Reform in OECD Countries

Access the complete publication at:

https://doi.org/10.1787/9789264244290-en

Please cite this chapter as:

OECD (2015), “The state of public finances 2015: An overall perspective”, in *The State of Public Finances 2015: Strategies for Budgetary Consolidation and Reform in OECD Countries*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/9789264244290-4-en

This document, as well as any data and map included herein, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area. Extracts from publications may be subject to additional disclaimers, which are set out in the complete version of the publication, available at the link provided.

The use of this work, whether digital or print, is governed by the Terms and Conditions to be found at http://www.oecd.org/termsandconditions.

OECD