FISCAL POLICY

Fiscal policy can provide a very important cushion for economic activity during a downturn, through the workings of automatic stabilisers and discretionary fiscal easing. The result of the crisis has been a dramatic run-up in government deficits and debt in most OECD countries.

Definition

The negative effect of the crisis on fiscal positions can be analysed by looking at changes in general government balances (*i.e.* changes in the difference between general government receipts and spending). Cumulative changes in government balances over the period 2009-2011 are expressed here relative to the GDP of 2008. The decomposition of the cumulative changes into cyclical effects (*i.e.* the effect of the recession in lowering government tax receipts and in raising government outlays) and structural effects (capturing discretionary fiscal policy measures as well as the disappearance of exceptional revenue buoyancy prior to the crisis) is based on the OECD's assessment of the various factors at work. Data on the composition of initial plans for (discretionary) fiscal packages in response to the crisis are based on information collected by the OECD up to early June 2009.

Changes in general government debt (measured by gross financial liabilities) reflect both annual government deficits and financial operations (*e.g.* rescue packages for financial institutions) that are not recorded as part of government expenditure.

The "general government" sector comprises the central government, local authorities and the social security system).

Comparability

All fiscal measures are recorded on an accrual basis (*i.e.* the basis used for national accounting). This implies that measures based on changing the timing of payments, such as bringing forward government payments or postponing tax receipts, will not affect the data referring to a given year.

In the table, the total columns differ from the sum of components shown as some components either have not been clearly specified or are not classified in this breakdown. The column on net effect includes only discretionary fiscal measures in response to the financial crisis. It excludes the potential impact of recapitalisation, guarantees or other financial operations as well as the impact of changes in the timing of payment of tax liabilities and government procurement.

Overview

All OECD countries except Iceland and Hungary show large deteriorations in government balances in the three years after 2008. Also, all OECD countries are recording large cyclical deteriorations in their fiscal stance. Structural balances have deteriorated significantly since 2008, with the notable exception of Iceland, Hungary, Italy and the Czech Republic. Discretionary fiscal easing is supporting economic activity in almost all countries.

Fiscal packages differ across countries not just in size, but also in their composition. Most countries have adopted broad ranging stimulus programmes, adjusting various taxes and spending programmes simultaneously. Large tax cuts have been implemented in Finland, Korea and the United States, and large boosts in spending (above 2.5% of 2008 GDP) have been planned in Australia, Denmark, Japan, Korea and Turkey. Conversely, Hungary, Iceland and Ireland introduced fiscal consolidation packages, combining tax hikes and spending cuts.

The deterioration in fiscal deficits is expected to lead to a significant deterioration of public debt by 2011 relative to 2008 levels. This reflects the impact of both higher cumulative deficits (in most countries) and, to a lesser extent, other financial operations. Meanwhile most larger OECD countries have announced some form of medium-term consolidation programme, with the Japanese authorities envisaging publication of a medium-term fiscal plan in early 2010. However, the programmes of the major seven countries provide little information yet on the timing and the instruments of future fiscal consolidation.

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Further information

Analytical publications

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Web sites

- OECD Economic Outlook Statistics, *www.sourceOECD.org/database/oecdeconomicoutlook*.
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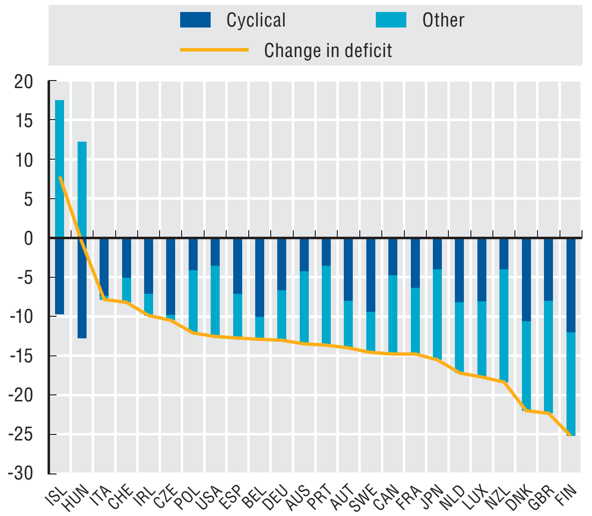
Cumulative changes in government balance 2009-11

As a percentage of 2008 GDP



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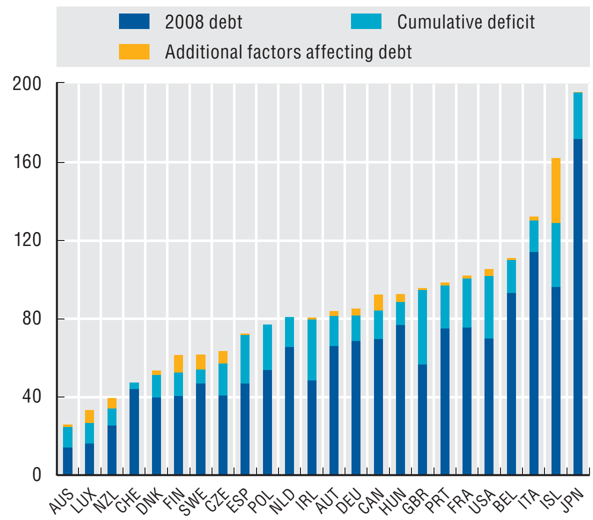
Gross government debt

As a percentage of 2008 GDP, 2011 forecasts



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Composition of fiscal packages

Total over 2008-2010 period, as a percentage of GDP in 2008

	Net effect	Tax measures					Spending measures					
		Total	Households	Businesses	Consumption	Social contributions	Total	Final consumption	Investment	Transfers to households	Transfers to businesses	Transfers to sub-national government
Australia	–5.4	–1.3	–1.1	–0.2	0.0	0.0	4.1	0.0	3.0	1.1	0.0	0.0
Austria	–1.2	–0.8	–0.8	–0.1	0.0	0.0	0.4	0.0	0.1	0.2	0.0	0.1
Belgium	–1.4	–0.3	0.0	–0.1	–0.1	0.0	1.1	0.0	0.1	0.5	0.5	0.0
Canada	–4.1	–2.4	–0.8	–0.3	–1.1	–0.1	1.7	0.1	1.3	0.3	0.1	..
Czech Republic	–2.8	–2.5	0.0	–0.7	–0.4	–1.4	0.3	–0.1	0.2	0.0	0.2	0.0
Denmark	–3.3	–0.7	0.0	0.0	0.0	0.0	2.6	0.9	0.8	0.1	0.0	0.0
Finland	–3.2	–2.7	–1.9	0.0	–0.3	–0.4	0.5	0.0	0.3	0.1	0.0	0.0
France	–0.7	–0.2	–0.1	–0.1	0.0	0.0	0.6	0.0	0.2	0.3	0.0	0.0
Germany	–3.2	–1.6	–0.6	–0.3	0.0	–0.7	1.6	0.0	0.8	0.3	0.3	0.0
Greece	0.8	0.8	0.8	0.0	0.0	0.0	0.0	–0.4	0.1	0.4	0.1	0.0
Hungary	7.7	0.2	–0.6	–0.1	2.3	–1.5	–7.5	–3.2	0.0	–3.4	–0.4	–0.5
Iceland	7.3	5.7	1.0	..	..	..	–1.6	..	..	..	..	..
Ireland	8.3	6.0	4.5	–0.2	0.5	1.2	–2.2	–1.8	–0.2	–0.1	0.0	0.0
Italy	0.0	0.3	0.0	0.0	0.1	0.0	0.3	0.3	0.0	0.2	0.1	0.0
Japan	–4.7	–0.5	–0.1	–0.1	–0.1	–0.2	4.2	0.2	1.2	0.6	1.5	0.6
Korea	–6.1	–2.8	–1.4	–1.1	–0.2	0.0	3.2	0.0	1.2	0.7	1.0	0.3
Luxembourg	–3.9	–2.3	–1.5	–0.8	0.0	0.0	1.6	0.0	0.4	1.0	0.2	0.0
Mexico	–1.7	–0.4	0.0	0.0	–0.4	0.0	1.2	0.1	0.7	0.1	0.0	0.0
Netherlands	–2.5	–1.6	–0.2	–0.5	–0.1	–0.8	0.9	0.0	0.5	0.1	0.0	0.0
New Zealand	–3.7	–4.1	–4.0	0.0	0.0	0.0	–0.3	0.1	0.6	–0.6	0.0	0.0
Norway	–1.2	–0.3	0.0	–0.3	0.0	0.0	0.9	0.0	0.4	0.0	0.0	0.3
Poland	–1.2	–0.4	0.0	–0.1	–0.2	0.0	0.8	0.0	1.3	0.2	0.1	0.0
Portugal	–0.8	..	..	..	..	..	..	0.0	0.4	0.0	0.4	0.0
Slovak Republic	–1.3	–0.7	–0.5	–0.1	0.0	–0.1	0.7	0.0	0.0	0.1	0.6	0.0
Spain	–3.9	–1.7	–1.6	0.0	0.0	0.0	2.2	0.3	0.7	0.5	0.7	0.0
Sweden	–3.3	–1.7	–1.3	–0.2	0.0	–0.2	1.7	1.1	0.3	0.1	0.0	0.2
Switzerland	–0.5	–0.2	–0.2	0.0	0.0	0.0	0.3	0.3	0.0	0.0	0.0	0.0
Turkey	–4.4	–1.5	–0.2	–1.1	–0.2	0.0	2.9	0.6	1.2	0.0	0.3	0.6
United Kingdom	–1.9	–1.5	–0.5	–0.2	–0.6	0.0	0.4	0.0	0.4	0.2	0.0	0.0
United States	–5.6	–3.2	–2.4	–0.8	0.0	0.0	2.4	0.7	0.3	0.5	0.0	0.9

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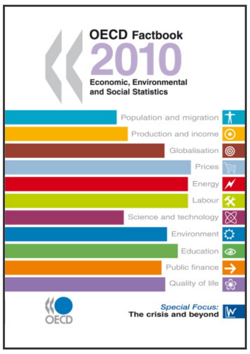

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