Restoring Public Finances

4th Annual Meeting of OECD-MENA Senior Budget Officials
Beirut, 21-22 September 2011
Jon Blondal
OECD
Key Questions

1. How do countries intend to restore public finances; how many have announced consolidation plans?
2. Are the consolidation plans backed by concrete measures?
3. What is the expected impact on public finances?
4. Are countries focusing on reducing expenditures or raising taxes?
5. What kind of expenditures will be cut?
6. Which taxes will be raised?
About the Survey

- Fiscal position, fiscal strategies, consolidation plans and expenditure and revenue measures for 30 member countries
- Data collection by the end of 2010, time frame 2009-2015
- Consolidation is defined as “concrete policies aimed at reducing deficits”
- What is a saving or revenue increase?
- Reforms for labour and product markets aimed at improving economic growth are not included
Ambitious Deficit Targets: Intended Deficit Reduction by 2013…

Change from the deficit trough in 2009/10 to the targeted deficit in 2013
Deficit goals 2010-2014

General government financial balance (United States – Federal government)
...But Announced Consolidation Plans Vary

Cumulative consolidation in % of GDP
Fiscal balances need to be improved more to achieve 60% debt-to-GDP ratios by 2025.

Following announced consolidation from 2011:
remaining required improvement in underlying primary balance, % of potential GDP
Fiscal Consolidation Strategies

Four categories of countries are emerging:

1. Substantial consolidation in response to market concerns about public finances: Greece, Hungary, Ireland, Portugal, Spain.

2. Pre-emptive packages in terms of relatively sizeable medium-term consolidation: Estonia, Germany, the Netherlands, New Zealand, the Slovak Republic and the United Kingdom.

3. Yet to announce large/more detailed consolidation: France, Japan, Poland and the United States.

4. Comparatively low fiscal consolidation needs: Australia, Chile, Finland, Korea, Norway, Sweden and Switzerland.
Large consolidation plans need to be more detailed
Are countries focusing on reducing expenditures or raising taxes?

Percentage share of expenditure cuts and revenue increases
Expenditures: Operational Cuts

A. Operational expenditures

B. Wage cuts
Expenditure: Welfare Targeted over Agriculture and Subsidies
Revenues: Consumption Taxes Dominate
Final Remarks

- Many OECD countries need consolidation; only half have medium-term consolidation programmes.
- Market pressure is a key factor for announcement, size and concreteness of the plans.
- These plans are important first steps in restoring public finances.
- Focus on expenditure reductions...
- ...but composition of measures could be improved.
- Most measures are structural, with important exceptions.
- Most of the fiscal consolidation plans will be implemented from 2011 and onwards...
- ....creating public support for implementation is essential.