From:
OECD Journal on Budgeting

Access the journal at:
http://dx.doi.org/10.1787/16812336

Country notes

Please cite this article as:

OECD (2011), "Country notes", *OECD Journal on Budgeting*, Vol. 11/2.
http://dx.doi.org/10.1787/budget-11-5kg869h4t8lx

OECD

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Chapter 2

Country notes

Each country note has the following structure:

Section 1 gives a brief overview of the main economic developments in recent years in the relevant country including real GDP, fiscal balance and gross debt figures. This presentation is mainly based on the "OECD Economic Outlook No. 88", *OECD Economic Outlook: Statistics and Projections* (database) (OECD, 2010a), and uses OECD definitions of general government balance and gross debt which may differ from national definitions (see Box 2.1).

Section 2 presents the government's fiscal consolidation strategies as manifested in fiscal balance and gross debt targets over the medium term, the size of the consolidation, and the composition of expenditures and revenues. Section 2 is based on information from the national authorities (or publicly available information) which may use other definitions of fiscal balance and gross debt than the OECD in Section 1. For example, most EU countries have reported such figures on a Maastricht basis.

Major consolidation measures are given in Section 3, quantified to the largest extent possible in local currencies and current prices annually. Expenditure measures are split between operational and programme measures and other initiatives. Revenue measures are listed without categories. Updates and additional consolidation measures may have been adopted in member countries after the data collection ended in November/December 2010, but are outside the scope of this analysis. Table 1 summarises the government's specific consolidation measures and their impact. The impact is given in per cent of nominal GDP, calculated by the OECD Secretariat by using nominal forecasts of GDP from the "OECD Economic Outlook No. 88", *OECD Economic Outlook: Statistics and Projections* (database) (OECD, 2010a). Eventual pension reforms are also included in this section.

Section 4 provides recent or planned institutional reforms. Table 2 summarises the government's fiscal consolidation plan as presented in Section 2 and corresponding figures.

Box 2.1. **OECD and Maastricht definition of general government debt**

Debt is consolidated within the general government. Financial liabilities such as trade credits extended to the government are not included. Debt is valued at nominal value (face value). Index-linked debt is valued at its face value adjusted by the index-related capital uplift accrued to the end of the year.

Gross debt according to the Maastricht criterion differs from the SNA-based (System of National Accounts) general government gross financial liabilities concept of the OECD in essentially two respects:

First, gross debt according to the Maastricht criterion does not include, in the terminology of the SNA, trade credits and advances.

Second, there is a difference in valuation methodology in that government bonds are to be valued at nominal values according to the Maastricht definition, but at market value or at issue price plus accrued interest according to SNA rules.

Source: OECD (2010), *OECD Economic Outlook: Sources and Methods*, OECD Publishing, Paris, *www.oecd.org/eco/sources-and-methods.*

Australia

1. Economic situation

Australia's economy has been one of the most resilient in the OECD during the recent economic crisis, boosted by demand for its commodities from China. The country recorded only a solitary quarter of economic contraction, with growth increasing 1.2% in 2009 (Figure 1A).

Australia recorded consistent fiscal surpluses in the years leading up to the economic crisis due to favourable economic circumstances and a sound fiscal framework. In 2009, the fiscal balance shifted into negative territory, with Australia recording a deficit of 4.0% of GDP (Figure 1B).

Gross debt has remained relatively stable at around 20% of GDP, significantly below the OECD average (Figure 1C). The Australian economy rebounded by 3.1% from June 2009-June 2010, and the OECD projects it to experience solid growth again in 2011 boosted by domestic demand and a booming export sector.

Figure 1. **Key economic indicators**

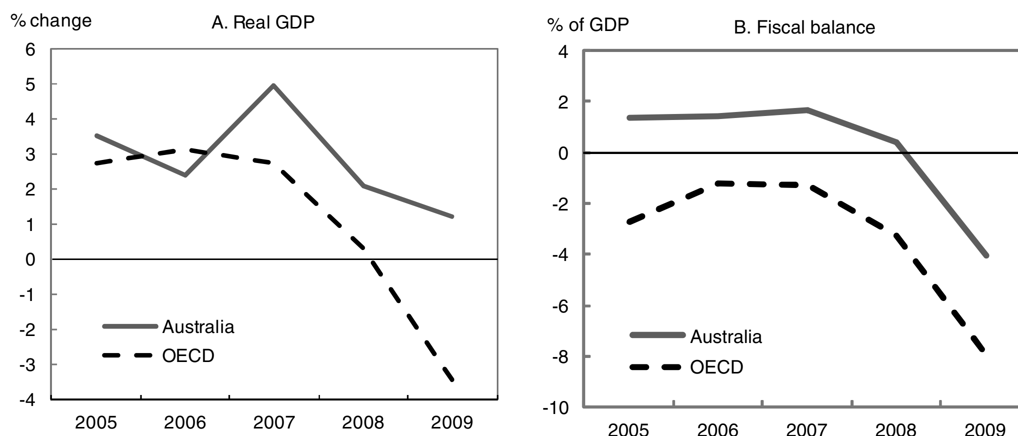
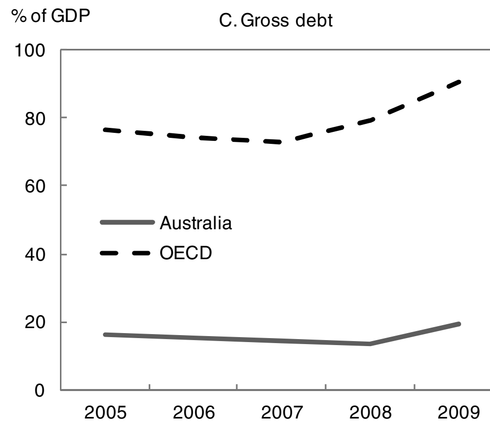


Figure 1. **Key economic indicators** *(cont'd)*



Notes: Fiscal balance and gross debt are general government financial balance and gross financial liabilities in per cent of nominal GDP.

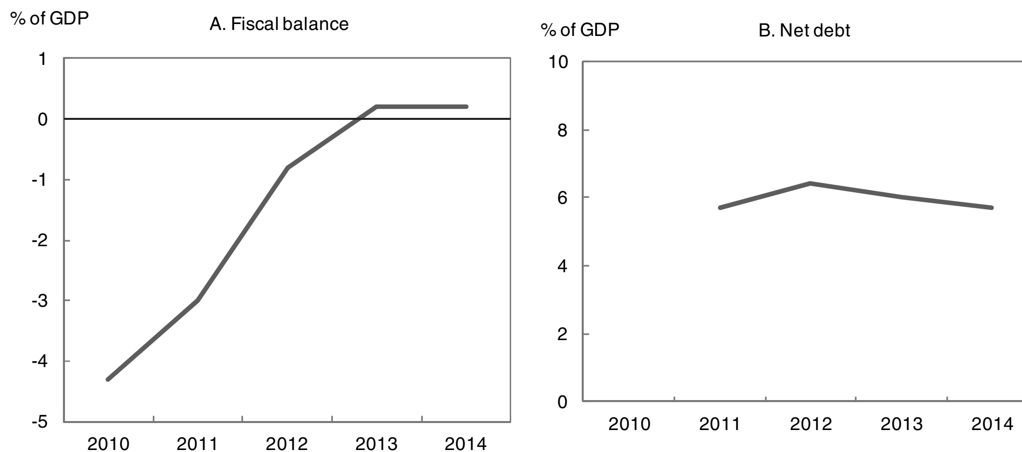
Source: OECD (2010), "OECD Economic Outlook No. 88", *OECD Economic Outlook: Statistics and Projections* (database), http://dx.doi.org/10.1787/data-00533-en.

2. The government's fiscal consolidation strategy

The key objective of Australia's deficit exit strategy is to limit expenditure growth by introducing a 2% cap on annual real public spending growth until the budget returns to surplus and while the economy is growing at or above trend, by retaining the average 2% annual spending cap until budget surpluses are at least 1% of GDP. Based on current projections, the real spending cap would remain in place until 2015-16. Australia's fiscal strategy also focuses on returning to budget surpluses over the medium term. The May 2010 budget projected a small surplus by 2012-13, assisted by strong prospects for economic growth and the corresponding increase in tax revenue growth that would be generated. The government is also targeting an improvement in Australia's financial net worth over the medium term and plans to keep taxation (as a share of GDP) below the 2007-08 level, on average.

The solid recovery in economic growth and tax receipts is expected to see the fiscal balance turn positive over the period 2012-13. The projected return to budget surplus largely relies on the expected increase in nominal revenues and the government spending cap, with little need for explicit spending or taxation measures. The budget is projected to recover from a deficit of 4.3% of GDP in 2009-10 to register a small surplus in 2012-13 (Figure 2A). Net debt is projected to peak at 6.4% of GDP (Figure 2B).

Figure 2. **The government's planned fiscal adjustments**



Notes: Fiscal balance and net debt are underlying cash balance and net financial liabilities in per cent of nominal GDP.

Source: "OECD Fiscal Consolidation Survey 2010".

3. Major fiscal consolidation measures

The Australian government's key consolidation objective has been to contain real spending growth, and as a result there has been little need for specific consolidation measures. On the revenue side, the government has raised taxes on tobacco and continues to implement its ambitious tax reform programme.

Table 1. **Major consolidation measures**

		Budgetary impact
Expenditures	No specific expenditure measures have been announced outside of the 2% cap in real spending growth.	
Revenues		
Tobacco excises	Increased by 25% in April 2010.	n.a.
Resource tax arrangements	Improved resource tax arrangements are expected to be applied to Australia's most highly profitable non-renewable resources from July 2012.	n.a.
Tax reform agenda	The corporate tax rate will be cut to 29% from 2013-14, and to 28% from 2014-15. Over a four-year period, a package of income tax rate cuts worth AUD 47 billion is also being implemented.	n.a.

Source: "OECD Fiscal Consolidation Survey 2010".

Pension reform

To ensure the long-term sustainability of the pension system, the government announced pension reform measures in 2009, including increasing the retirement age from 65 to 67 by 2023.

4. Institutional reforms

In a move that would further strengthen the credibility of the fiscal framework, the Australian Opposition have tabled the "Parliamentary Budget Office Bill 2010" which would lead to the creation of an independent Parliamentary Budget Office.

Table 2. **The government's fiscal consolidation plan**

% of GDP

Fiscal consolidation	2010	2011	2012	2013	2014
Total deficit (-) / surplus (-)[1]	-4.3%	-3.0%	-0.8%	0.2%	0.2%
Total level of net debt		5.7%	6.4%	6.0%	5.7%

1. Fiscal balance is defined as the underlying cash balance.

Source: "OECD Fiscal Consolidation Survey 2010".

Austria

1. Economic situation

The Austrian economy grew robustly between 2006-07, outperforming the OECD average. However, as a small open economy, it entered a deep recession caused primarily by falling exports, reflecting the collapse of world trade and shrinking investment. As a result, the economic growth rate had contracted considerably by 3.8% in 2009 (Figure 1A).

Austria's fiscal position deteriorated due to weak economic growth and the implementation of discretionary stimulus measures as well as the operation of automatic stabilisers. The general government deficit declined to 3.5% in 2009 (Figure 1B). General government debt also rose, reaching 72.7% in 2009 (Figure 1C). The OECD has projected that the economy will recover modestly for 2010-11, driven by the increase in world trade and the succeeding growth of exports.

Figure 1. **Key economic indicators**

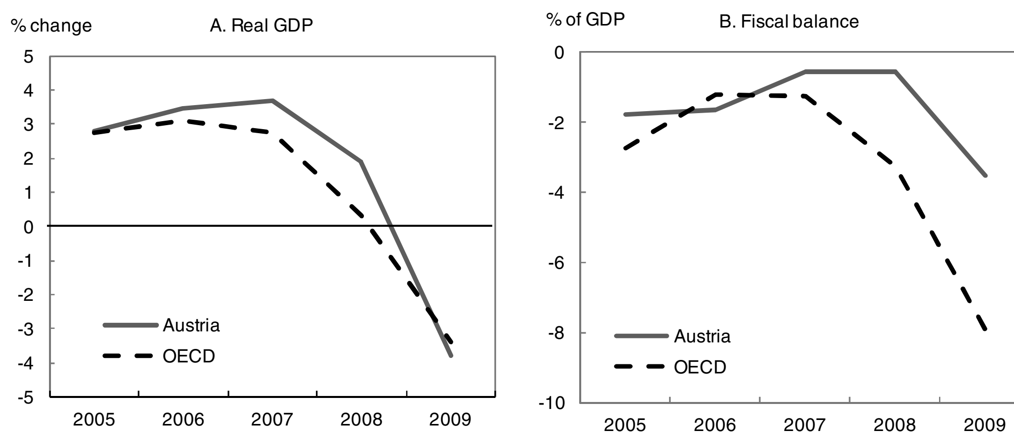
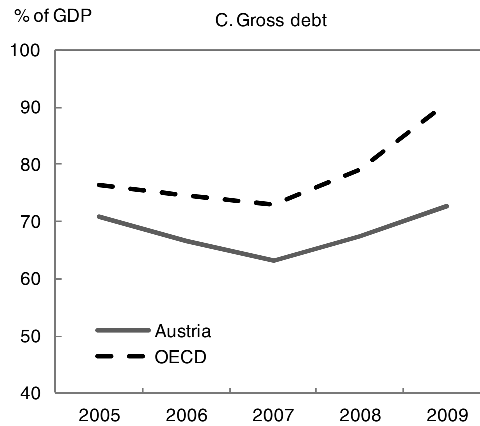


Figure 1. **Key economic indicators** *(cont'd)*



Notes: Fiscal balance and gross debt are general government financial balance and gross financial liabilities in per cent of nominal GDP.

Source: OECD (2010), "OECD Economic Outlook No. 88", *OECD Economic Outlook: Statistics and Projections* (database), http://dx.doi.org/10.1787/data-00533-en.

2. The government's fiscal consolidation strategy

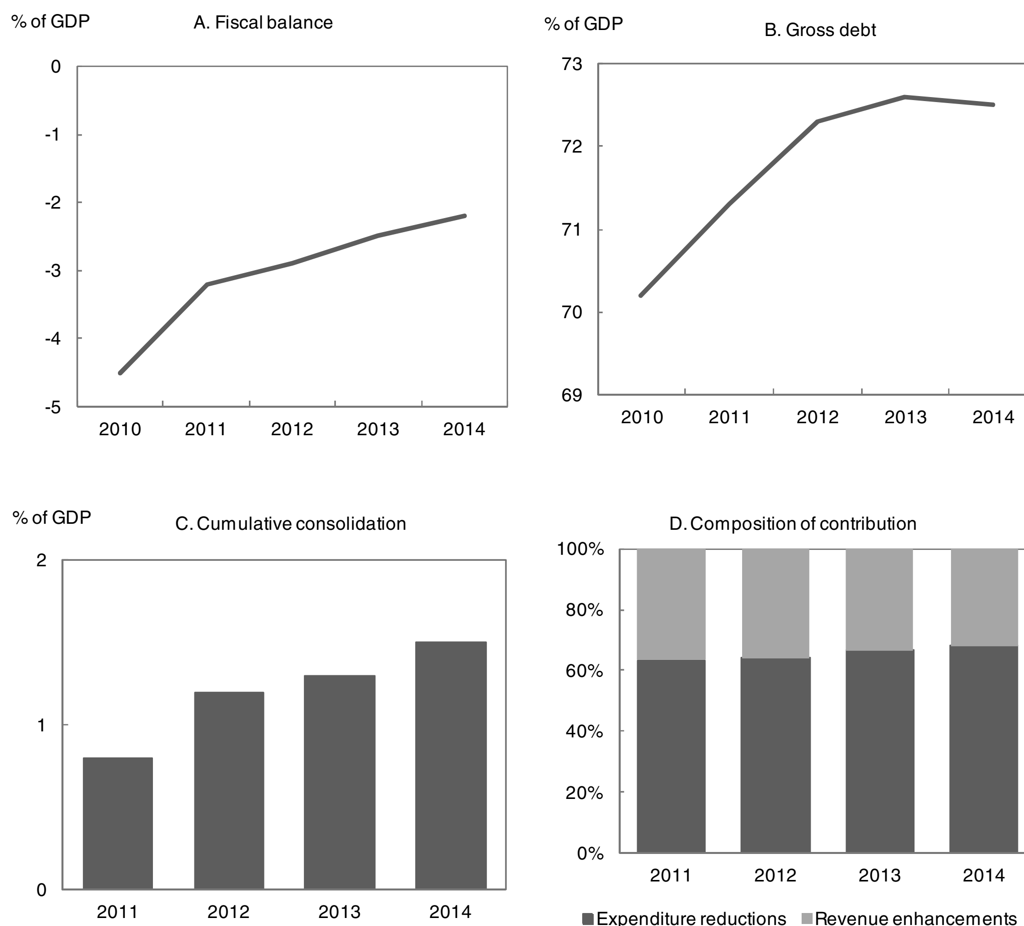
The government is following a three-pillar budgetary and financial strategy:

- a balanced budget over the business cycle;
- investments in the R&D, infrastructure, education and tertiary education to foster more growth and employment as well as to protect the social system;
- structural reforms in the field of public administration.

Austria introduced a medium-term expenditure framework (MTEF) for the federal government budget in 2009. The MTEF is based on fixed expenditure ceilings set out for four consecutive years, on a rolling basis. The current MTEF sets an expenditure path to reduce the general government deficit to 2.2% of GDP in 2014 (Figure 2A). This should in turn see gross debt stabilise at around 72% of GDP in 2013 (Figure 2B).

The consolidation programme is front-loaded in that more than 70% of total consolidation efforts will take place between 2011-12 (Figure 2C). Regional and local governments are expected to contribute to the consolidation process but the share of their contributions is yet to be finalised. Between 2011-14, the government will focus on expenditure cuts rather than revenue enhancement. Expenditure cuts will contribute more than two-thirds of the planned consolidation efforts, with revenue increases making up the remaining third (Figure 2D).

Figure 2. **The government's planned fiscal adjustments**



Notes: Fiscal balance and gross debt are general government financial balance and gross financial liabilities on a Maastricht basis as a per cent of nominal GDP. Fiscal consolidation is cumulative consolidation as a per cent of GDP. The composition of the contribution to fiscal consolidation is expenditure reductions and revenue enhancements (total = 100%). OECD calculations.

Source: "OECD Fiscal Consolidation Survey 2010".

3. Major consolidation measures (federal government)

Reducing operating expenditures across all ministries will yield savings of 0.14% of GDP. In addition, the number of federal government officials will be reduced by about 3 000 until 2014. Over the same period, government subsidies to the labour market, agriculture, etc. will bring savings amounting to 0.14% of GDP. Expenditures for investment in R&D, education and the environment will, however, be increased to stimulate economic growth and employment.

On the revenue side, one of the more significant measures is a special banking levy to increase revenue by 0.15% of GDP in 2011-14. Extra excise duties on petrol, tobacco and plane tickets are projected to add revenue of 0.2% of GDP.

Table 1. **Major consolidation measures**

Millions EUR (% of GDP[1])

		2011	2012	2013	2014
Expenditures		**1 392.2 (0.48)**	**1 973.4 (0.66)**	**2 233.4 (0.72)**	**2 506.1 (0.77)**
1. Operational measures		290.2 (0.10)	482.7 (0.16)	559.2 (0.18)	576.9 (0.18)
– Staff expenditure	Reduction of recruitment and other personnel measures.	49.9 (0.02)	80.7 (0.03)	97.5 (0.03)	110.8 (0.03)
– Operating expenditures	Reduction of operating expenditures of all ministries and less procurement.	240.3 (0.08)	402.0 (0.13)	461.7 (0.15)	466.1 (0.14)
2. Programme measures		1 000.5 (0.34)	1 333.9 (0.44)	1 537.5 (0.49)	1 761.1 (0.54)
– Family allowances	Reduction of family benefits.	245.5 (0.08)	277.9 (0.09)	277.9 (0.09)	277.9 (0.09)
– Pension expenditure	Limiting the increase of pension, abolition of the pension adjustment in the first year, reducing special payments, etc.	340.1 (0.12)	392.5 (0.13)	461.5 (0.15)	542.0 (0.17)
– Other social expenditure	Long-term care, unemployment insurance, health care.	130.1 (0.04)	177.2 (0.06)	213.8 (0.07)	254.3 (0.08)
– Subsidies	Economy, labour market policy, agriculture, transport, etc.	189.6 (0.07)	329.6 (0.11)	404.2 (0.13)	457.9 (0.14)
– Investment expenditures	Redimension construction and investment.	95.2 (0.03)	156.7 (0.05)	180.1 (0.06)	229.0 (0.07)
3. Other initiatives		101.5 (0.03)	156.8 (0.05)	136.7 (0.04)	168.1 (0.05)
Revenues (general government)[2]		**1 172 (0.40)**	**1 741 (0.58)**	**1 921 (0.62)**	**2 191 (0.67)**
– Bank levy	Tax on banks.	500 (0.17)	500 (0.17)	500 (0.16)	500 (0.15)
– Excise duties	Increase in tobacco, CO_2 supplement to mineral oil tax, plane ticket duty, etc.	572 (0.20)	805 (0.27)	835 (0.27)	835 (0.26)
– Other tax measures	Withholding tax on income of securities, etc.		236 (0.08)	286 (0.09)	456 (0.14)
– Anti tax fraud		100 (0.03)	200 (0.07)	300 (0.10)	400 (0.12)

1. OECD calculations using OECD forecasts of nominal GDP for 2011-14.

2. 66% for federal government.

Source: "OECD Fiscal Consolidation Survey 2010".

4. Institutional reforms

Austria implemented fundamental reforms to its budget institutions and processes following an amendment to the Constitution which was adopted by parliament in December 2007. The reforms consisted of the following two stages:

- The first stage introduced a four-year MTEF in 2009 with binding expenditure ceilings. The MTEF is accompanied by a strategy report which further explains medium-term strategic budgetary planning and policy making. The budget law does not allow the government to exceed the ceilings, and any changes to the MTEF and the strategy report have to be approved by parliament.

- Second stage reforms will come into effect in 2013 and involve a new budget structure, results-oriented management of state bodies, accrual accounting and performance budgeting.

Table 2. **The government's fiscal consolidation plan**

% of GDP

Fiscal consolidation	2010	2011	2012	2013	2014
Consolidation volume[1] (cumulative)		0.8%	1.1%	1.3%	1.5%
Total deficit(-)/ surplus(+)	-4.5%	-3.2%	-2.9%	-2.5%	-2.2%
Total level of debt	70.2%	71.3%	72.3%	72.6%	72.5%
Fiscal consolidation by expenditure reduction and revenue enhancement (total = 100%)					
Expenditure reductions		63.4%	64.0%	66.6%	68.2%
Revenue enhancements		36.6%	36.0%	33.4%	31.8%

1. Federal government.

Source: "OECD Fiscal Consolidation Survey 2010".

Belgium

1. Economic situation

The Belgian economy experienced a severe downturn in 2008-09 in the aftermath of the economic crisis, with the economic growth rate falling to -3.0% in 2009 (Figure 1A). Whereas the fiscal balance had shown a slight surplus in 2006, Belgium recorded a deficit of 6% of GDP in 2009 (Figure 1B), the highest deficit since 1993.

Before the economic crisis, gross debt had been gradually declining due to consolidation efforts during the previous decade. The debt ratio, however, rose significantly to around 100% of GDP in 2009 due to the costs associated with the crisis (Figure 1C). The OECD projects that the economy is on a slow recovery path and should return to its long-term trend by 2012.

Figure 1. **Key economic indicators**

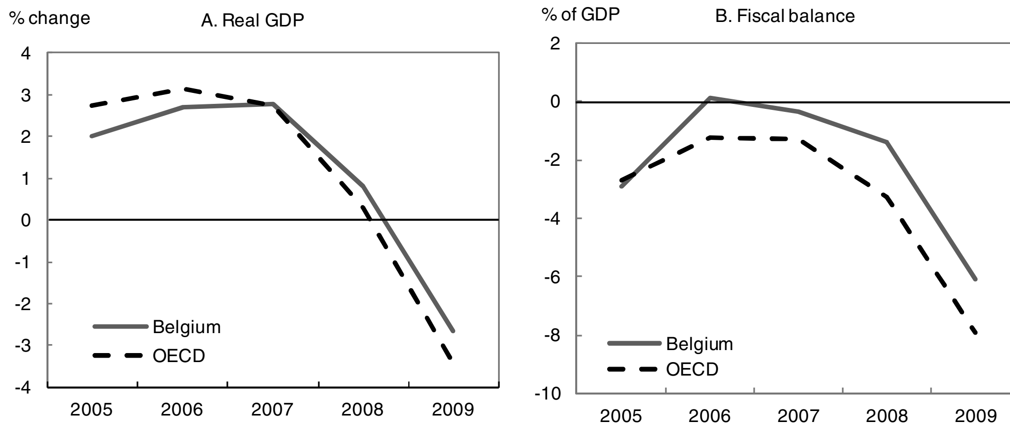
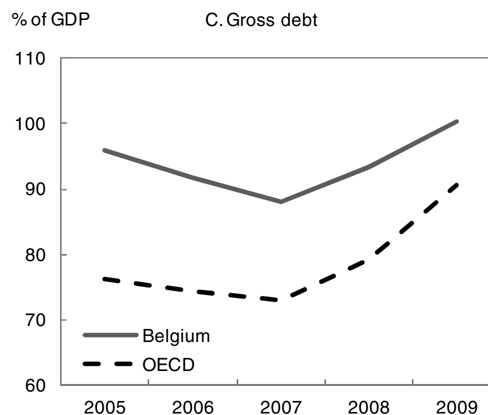


Figure 1. **Key economic indicators** *(cont'd)*



Notes: Fiscal balance and gross debt are general government financial balance and gross financial liabilities as a per cent of nominal GDP.

Source: OECD (2010), "OECD Economic Outlook No. 88", *OECD Economic Outlook: Statistics and Projections* (database), http://dx.doi.org/10.1787/data-00533-en.

2. The government's fiscal consolidation strategy

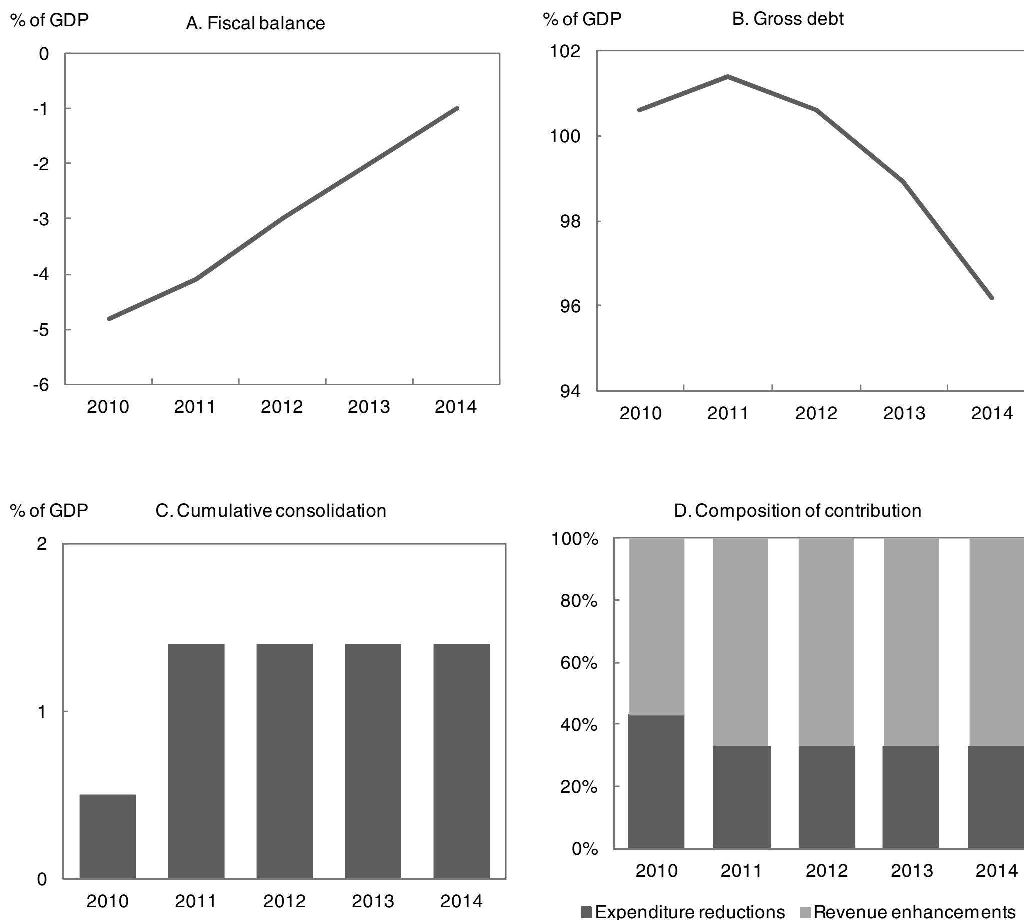
In January 2010, the Belgian government outlined its fiscal consolidation programme through 2012. It was premised on a strategy to preserve the sustainability of public finances while at the same time mapping out an improvement path that will not damage the fragile economic recovery.

The Belgian fiscal consolidation strategy set the following targets:

- No more than a 3% deficit in 2012 (Figure 2A). The government also set a medium-term target of restoring fiscal balance by 2015 at the latest.
- Public debt is expected to fall from 2011 (Figure 2B) since most of the consolidation efforts are to be implemented in 2011 (Figure 2C).
- Unlike many other countries, the Belgian government has focused more on revenue increases rather than expenditure cuts. Revenue enhancements account for more than 60% of total consolidation efforts (Figure 2D).
- Total fiscal saving efforts will be distributed between the federal government and regional governments based on the inter-governmental burden-sharing agreement for 2009-10 and the planned agreement for 2011-12.

To promote economic growth during fiscal consolidation, the Belgian government decided to extend some 2009 anti-crisis measures to 2010, such as the reduced VAT rate for construction and the implementation of new measures to stimulate employment in 2010-11.

Figure 2. **The government's planned fiscal adjustments**



Notes: Fiscal balance and gross debt are general government financial balance and gross financial liabilities on a Maastricht basis as a per cent of nominal GDP. Fiscal consolidation is cumulative consolidation of federal government as a per cent of GDP. The composition of the contribution to fiscal consolidation is expenditure reductions and revenue enhancements (total = 100%). OECD calculations.

Source: "OECD Fiscal Consolidation Survey 2010".

3. Major consolidation measures (federal government)[1]

On the expenditure side, the Belgian government intends to save 0.22% of GDP in 2011 on health care costs by taking measures such as holding part of health care resources in reserve. 1.6% of the state's operating costs has been reduced. Cost savings of 0.7% on personnel expenditures were also implemented in 2009-10.

On the revenue side, the government decided to levy a tax on banks and stock exchange companies effective since January 2011, which is expected to increase revenue by 0.16% of GDP in 2011. Environmental taxes, including supplemental taxes on fuel and a new taxation system for company cars based on CO_2 emissions, are estimated to supply additional revenue of EUR 935 million (0.26% of GDP). Furthermore, the campaign against tax and social insurance contribution fraud will bring extra revenue of 0.1% of GDP.

Table 1. **Major consolidation measures**

Millions EUR (% of GDP[1])

		2010	2011
Expenditures		**951 (0.27)**	**1 153 (0.32)**
1. Operational measures		200 (0.06)	200 (0.06)
– Staff expenses	0.7% cost savings on personnel expenditures.	100 (0.03)	100 (0.03)
– Operating expenses	Reducing the state's operating costs.	100 (0.03)	100 (0.03)
2. Programme measures		751 (0.21)	953 (0.26)
– Health care	Reserving part of health care resources (e.g. sickness insurance) not to be spent, etc.	644 (0.18)	812 (0.22)
– Social security	Reduction of overhead costs, tightening conditions of early retirement, etc.	107 (0.03)	141 (0.04)
Revenues		**1 243 (0.35)**	**2 255 (0.62)**
– Excise duties	Increased excises on diesel, tobacco, company cars, etc.	556 (0.16)	935 (0.26)
– Tax expenditure	Tightening the conditions for deductions on taxed income.	140 (0.04)	140 (0.04)
– Anti tax fraud	Linking all databases related to tax benefits, strengthening the collection of employee withholding tax, etc.	182 (0.05)	365 (0.10)
– Tax on the financial sector	With effect from 1 January 2011, taxes on banks and stock exchange companies participating in the Special Deposit Protection Fund.	130 (0.04)	580 (0.16)
– Tax on the energy sector	Imposing an annual contribution on the nuclear energy sector.	235 (0.07)	235 (0.06)
– New initiatives (expenditures and revenues)	Extension of anti-crisis measures, and new measures to promote growth.	-719 (0.20)	-594 (0.16)

1. OECD calculations using OECD forecasts of nominal GDP for 2010-11.

Source: "OECD Fiscal Consolidation Survey 2010".

Table 2. **The government's fiscal consolidation plan**

% of GDP

Fiscal consolidation	2010	2011	2012	2013	2014
Consolidation volume[1] (cumulative)	0.5%	1.4%	1.4%	1.4%	1.4%
Total deficit(-)/ surplus(+)	-4.8%	-4.1%	-3.0%	-2.0%	-1.0%
Total level of debt	100.6%	101.4%	100.6%	98.9%	96.2%
Fiscal consolidation by expenditure reduction and revenue enhancement (total = 100%)					
Expenditure reductions	43%	33%	33%	33%	33%
Revenue enhancements	57%	67%	67%	67%	67%

1. The Belgian government provides consolidation path data in terms of the balance improvement for 2010-14, but for better comparativity, this table uses the consolidation efforts data provided by the government.

Source: "OECD Fiscal Consolidation Survey 2010".

Canada

1. Economic situation

The Canadian economy contracted by 2.5% in 2009, slightly better than the OECD average of 3.4% (Figure 1A). In contrast to a majority of other G7 countries, Canada recorded consistent budget surpluses in the years prior to the crisis, resulting in strong public finances (Figure 1B). Fiscal stimulus measures implemented in an effort to offset the economic slowdown have led to a widening of the deficit and a subsequent deterioration in public finances.

Including provincial and territorial debt, Canada's gross debt ratio has increased to a level slightly below the OECD average (Figure 1C). As of the third quarter of 2010, timely policy measures and strength in domestic demand allowed Canada to recover all of the output contraction experienced during the recession of 2008 and early 2009. And while economic recovery moderated in the middle of 2010, the OECD forecasts activity to progress at a moderate pace through 2011-12 as employment prospects and external demand gradually recover.

Figure 1. **Key economic indicators**

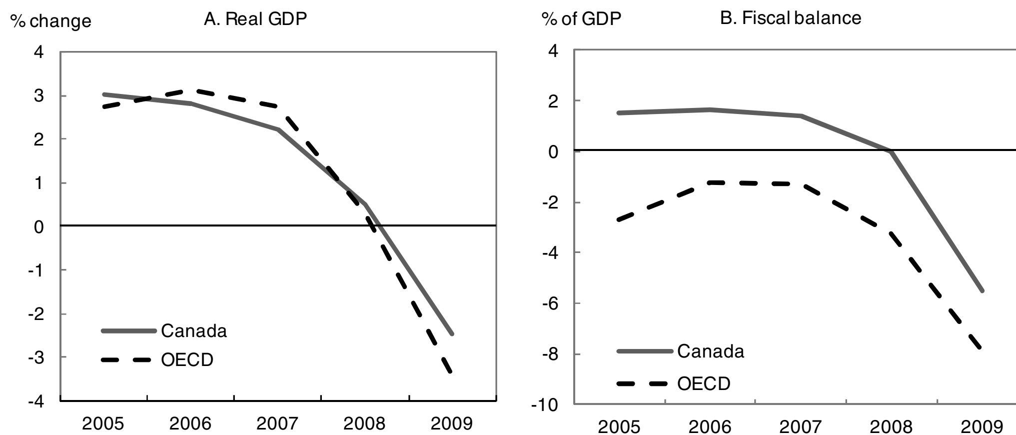
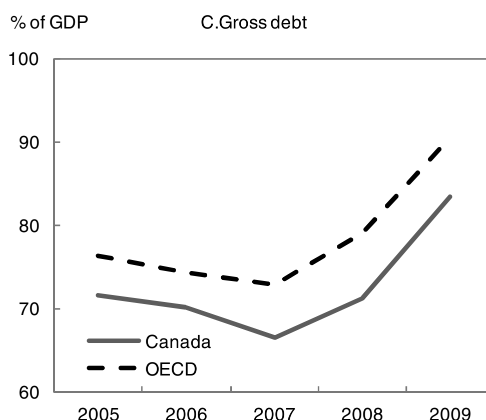


Figure 1. **Key economic indicators** *(cont'd)*



Notes: Fiscal balance and gross debt are general government financial balance and gross financial liabilities as a per cent of nominal GDP.

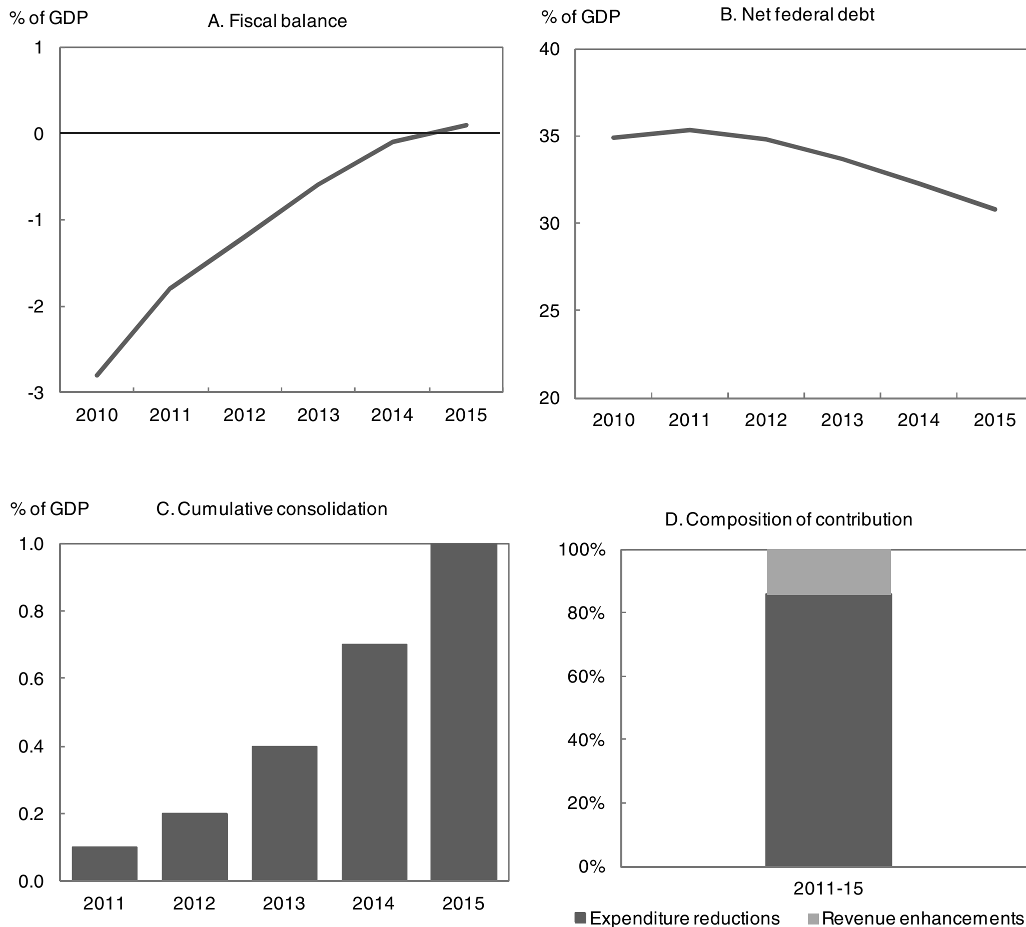
Source: OECD (2010), "OECD Economic Outlook No. 88", *OECD Economic Outlook: Statistics and Projections* (database), http://dx.doi.org/10.1787/data-00533-en.

2. The government's fiscal consolidation strategy

Canada has projected to balance its federal budget by 2015. The fiscal consolidation strategy focuses on expenditure constraint and is comprised of three key elements. First, the government has announced that temporary stimulus measures will end as the economy recovers, and this should alone contribute almost half of the expected deficit reduction between 2010 and 2012. Second, the government has announced a package of targeted spending restraint measures to take effect in 2011, and build over the medium term as economic growth returns towards potential. Third, the Canadian government continues to undertake departmental spending reviews to identify savings from low-priority and low-performing programmes.[2] To address the problems of the ageing population and long-term fiscal sustainability, the government is also targeting a return to balanced budgets, low and manageable debt, and continuing the implementation of a growth-enhancing economic agenda.

To meet its target for a balanced budget by 2015 the government has announced consolidation measures of CAD 17.6 billion (around 1% of GDP) over a five-year period (Figure 2C). The Canadian government is projecting a reduction of the federal deficit to 2.8% of GDP in 2010-11 and a surplus of 0.1% of GDP by 2015-16 (Figure 2A). Canada's net federal debt is projected to peak at 35.3% of GDP in 2011-12 (Figure 2B). By the end of 2010, eight of ten provinces had established fiscal consolidation plans, and one is planning to maintain its current surplus position. A majority are expected to balance their budgets by 2013-14.[3]

Figure 2. **The government's planned fiscal adjustments**



Notes: Fiscal balance is federal government financial balance as a per cent of nominal GDP. Net federal debt is net federal financial liabilities as a per cent of nominal GDP, as reported in the response to the survey. Fiscal consolidation is cumulative consolidation as a per cent of nominal GDP. The composition of the contribution to fiscal consolidation is expenditure reductions and revenue enhancements (total = 100%). OECD calculations.

Source: "OECD Fiscal Consolidation Survey 2010".

3. Major consolidation measures

Canada has announced a number of expenditure restraint measures: freezing departmental operating budgets until 2013 for savings of 0.4% of GDP; future international assistance spending will be capped at 2010-11 levels to produce savings the equivalent of 0.22% of GDP. Furthermore, savings from the 2009 round of Strategic Reviews amounting to 0.06% of GDP will not be reallocated.

In addition to the expenditure measures, the government introduced several measures to close loopholes of the tax system, which are expected to increase revenue by 0.12% of GDP.

Table 1. **Major consolidation measures**

Billions CAD (% of GDP[1])

		Budgetary impact 2011-15
Expenditures		**15.1 (0.74)**
1. Operational measures		6.8 (0.33)
– Government administration	Containing the administrative cost of government, including freezing operating budgets until 2013.	6.8 (0.33)
2. Programme measures		8.3 (0.41)
– General departmental spending	Cost savings announced in the 2010 budget as identified in the Strategic Reviews.	1.3 (0.06)
– International assistance	International assistance spending to be capped at 2010-11 levels.	4.5 (0.22)
– Defence	The growth in defence spending to be capped.	2.5 (0.12)
Revenues		**2.5 (0.12)**
– Tax compliance	A number of measures to close loopholes and to improve the fairness of the tax system have been introduced.	2.5 (0.12)

1. OECD calculations using OECD forecasts of nominal GDP for 2015.

Source: “OECD Fiscal Consolidation Survey 2010”.

Table 2. **The government’s fiscal consolidation plan**

% of GDP

Fiscal consolidation	2010	2011	2012	2013	2014	2015
Consolidation measures (cumulative)		0.1%	0.2%	0.4%	0.7%	1.0%
Total federal deficit/surplus	-2.8%	-1.8%	-1.2%	-0.6%	-0.1%	0.1%
Total level of federal net debt	34.9%	35.3%	34.8%	33.7%	32.3%	30.8%
General government net debt	31.4%	33.7%	34.3%			
General government gross debt	84.4%	85.5%	87.0%			

Notes: General government net debt and gross debt projections from OECD (2010), “OECD Economic Outlook No. 88”, *OECD Economic Outlook: Statistics and Projections* (database), http://dx.doi.org/10.1787/data-00533-en, including provincial and territory debt.

Source: “OECD Fiscal Consolidation Survey 2010”.

Czech Republic

1. Economic situation

The small open economy of the Czech Republic contracted by 4% in 2009 in response to the global economic crisis which led to a weakening in industrial exports and domestic demand. Prior to the economic crisis the Czech economy recorded growth in excess of 6%, well above the OECD average (Figure 1A).

The Czech budget deficit has also deteriorated sharply in recent years as revenues fell and stimulus measures were implemented. The 2009 deficit measured 5.8% of GDP (Figure 1B). However, gross debt remains significantly below the OECD average at around 40% of GDP (Figure 1C). The OECD is projecting export growth to lead a moderate economic recovery in 2010 and 2011, with domestic demand more subdued due to a weak labour market and fiscal consolidation.

Figure 1. **Key economic indicators**

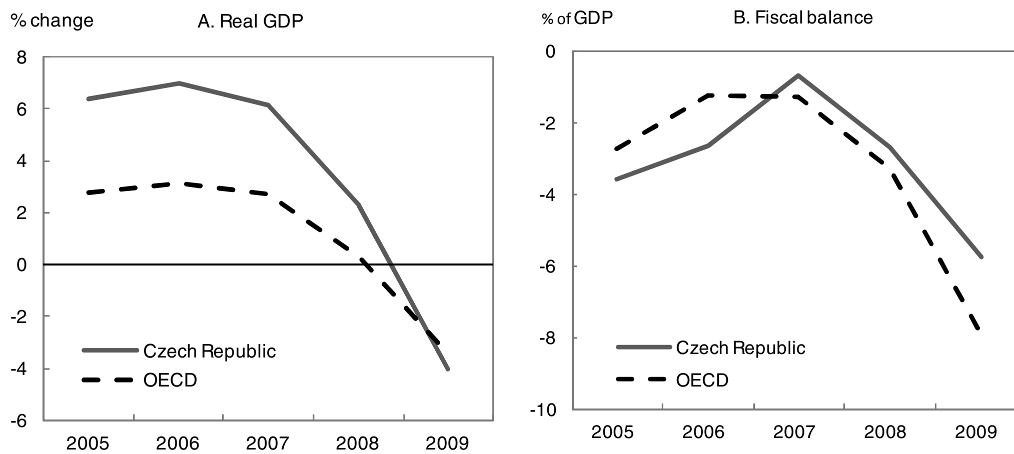
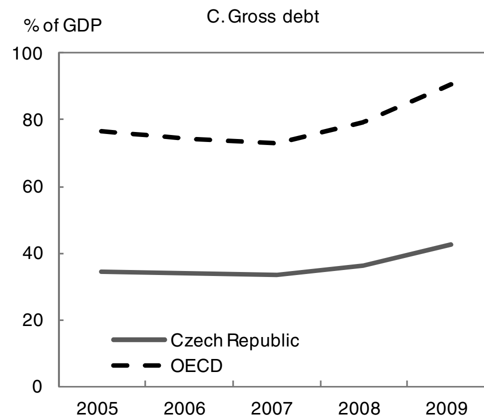


Figure 1. **Key economic indicators** *(cont'd)*



Notes: Fiscal balance and gross debt are general government financial balance and gross financial liabilities as a per cent of nominal GDP.

Source: OECD (2010), "OECD Economic Outlook No. 88", *OECD Economic Outlook: Statistics and Projections* (database), http://dx.doi.org/10.1787/data-00533-en.

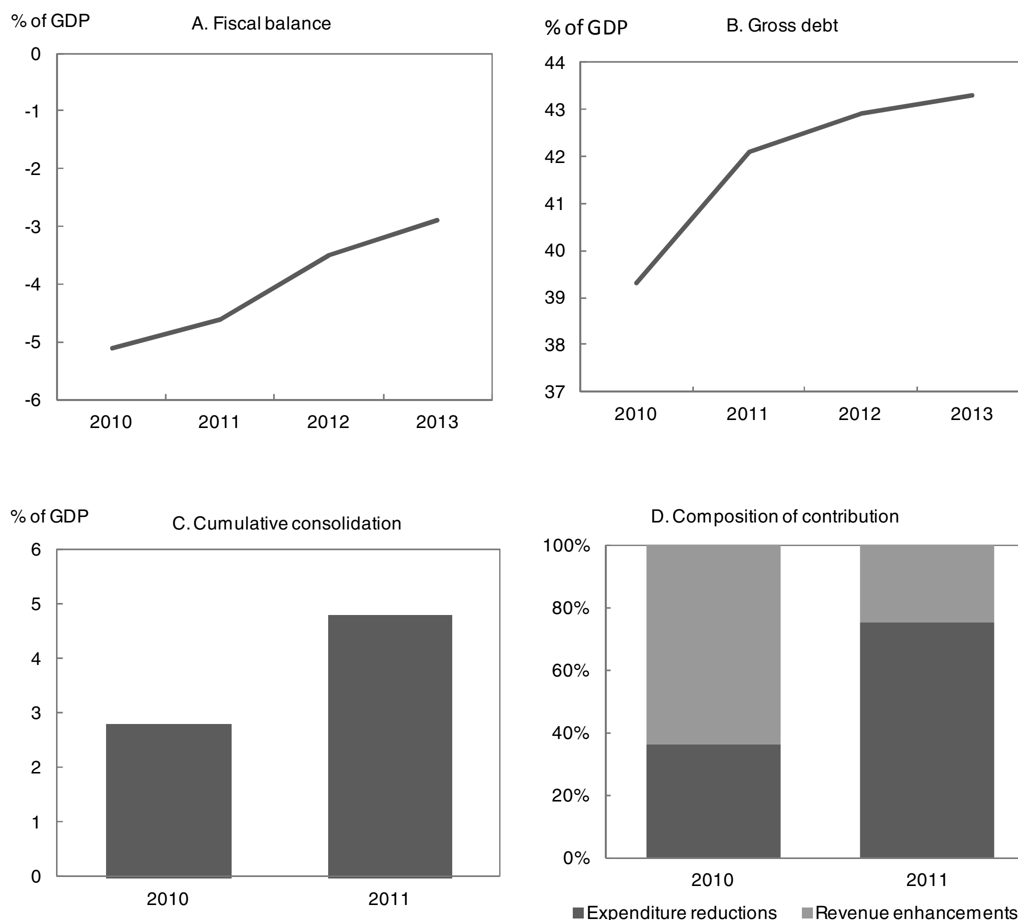
2. The government's fiscal consolidation strategy

In August 2010 the new coalition government announced a multi-year fiscal consolidation strategy aimed at balancing the budget by 2016, with an interim deficit target of 2.9% of GDP in 2013. The strategy is affirmed in the draft state budget for 2011 and medium-term outlook of the state budget for 2012-23.

Fiscal consolidation efforts began early in 2010. To meet the 2010 deficit target, the focus of the 2010 consolidation programme was on enhancing revenues by raising VAT and excise taxes. In July 2010 the government adopted additional measures in an effort to meet the 2010 deficit target in an environment of decreasing general tax receipts and rising social security costs. The 2011 budget puts emphasis on cuts to recurrent expenditures and central government wage restraint (Figure 2D). The authorities expected a deficit of 5.1 % of GDP in 2010.

Consolidation measures equivalent to 2.8% of GDP were implemented in 2010 with a focus on revenue enhancements (Figure 2C). Fiscal consolidation measures of 2% of GDP should be implemented in 2011, with a focus on cuts to operational expenditures and a deficit target of 4.6% of GDP. The government's deficit target for 2013 is 2.9% of GDP (Figure 2A).

Figure 2. **The government's planned fiscal adjustments**



Notes: Fiscal balance and gross debt are general government financial balance and gross financial liabilities on a Maastricht basis as a per cent of nominal GDP. Fiscal consolidation is cumulative consolidation as a per cent of GDP. The composition of the contribution to fiscal consolidation is expenditure reductions and revenue enhancements (total = 100%). OECD calculations.

Source: "OECD Fiscal Consolidation Survey 2010".

3. Major fiscal consolidation measures

The majority of the 2010 consolidation effort came from changes to social security contributions (0.9% of GDP in 2010), higher VAT and excise taxes, together with a freeze on government expenditures. In contrast, the 2011 consolidation effort will be on the expenditure side with public sector wage and other operational expenditure reductions (roughly 1.1% of GDP in 2011) and social benefit decreases.

Table 1. **Major consolidation measures**

Billions CZK (% of GDP[1])

		2010	2011
Expenditures		**37.7 (1.01)**	**58.5 (1.50)**
1. Operational measures		2.0 (0.05)	24.5 (0.63)
– Government administration	Decrease in public sector pay by at least 10% (excluding teachers).	2.0 (0.05)	11.2 (0.29)
– Operational expenditures	Decrease in general operational expenditures.		13.3 (0.34)
2. Programme measures		9.1 (0.24)	15.7 (0.40)
– Unemployment and social benefits	Temporary decrease to sickness benefits, reductions to social benefits and unemployment support.	2.2 (0.06)	12.6 (0.32)
– Pension costs	No increase in pensions (opposed to original budget draft).	6.9 (0.19)	
– Infrastructure	Reduce expenditures.		3.1 (0.08)
3. Other initiatives			
– Expenditure freeze	Expenditure freeze and other cost savings.	26.6 (0.72)	18.3 (0.47)
Revenues		**65.8 (1.77)**	**19.9 (0.51)**
– Social security	Ceiling raised on income subject to contributions, postponing cut in employers' contributions, cancellation of reduction in employers' contributions.	32.6 (0.88)	12.9 (0.33)
– VAT	Increase in VAT rates from 19% to 20% beginning January 2010.	17.8 (0.48)	0.2 (0.01)
– Real estate taxes	Doubling real estate tax rates (except for agricultural land).	2.8 (0.08)	
– Income taxes	Individual income tax adjustment.	1.5 (0.04)	6.8 (0.17)
– Excise taxes	Increase in excise taxes.	11.1 (0.30)	

1. OECD calculations using OECD forecasts of nominal GDP for 2010-11. Incremental numbers in 2011.

Source: "OECD Fiscal Consolidation Survey 2010".

4. Institutional reforms

The government plans to submit a constitutional act on budget discipline and responsibility and create a National Budget Council to verify the expenditure framework of the budget and proposals.

Table 2. **The government's fiscal consolidation plan**

% of GDP

Fiscal consolidation	2010	2011	2012	2013	2014
Consolidation measures (cumulative)	2.8%	4.8%			
Total deficit/surplus	-5.1%	-4.6%	-3.5%	-2.9%	
Total level of debt	39.3%	42.1%	42.9%	43.3%	
Composition of fiscal consolidation (total = 100%)					
Expenditure reductions	36%	75%			
Revenue enhancements	64%	25%			

Source: "OECD Fiscal Consolidation Survey 2010"

Denmark

1. Economic situation

As a small open economy, Denmark was relatively hard hit by the economic crisis in 2008 and 2009 with GDP growth dropping more than the OECD average (Figure 1A). In the run up to the crisis, Danish fiscal positions were favourable. The fiscal framework contributed to successive fiscal surpluses from 2005-08. Positive fiscal balances paved the way for declining debt-to-GDP ratios, reaching levels substantially below those seen in other OECD member countries (Figure 1B and C).

Growth in 2010 was primarily supported by an expansionary fiscal policy and a large drop in interest rates. The OECD projects the recovery to gradually gain strength in 2011 and 2012 as world trade expands, and to become broad-based as private domestic demand improves.

Figure 1. **Key economic indicators**

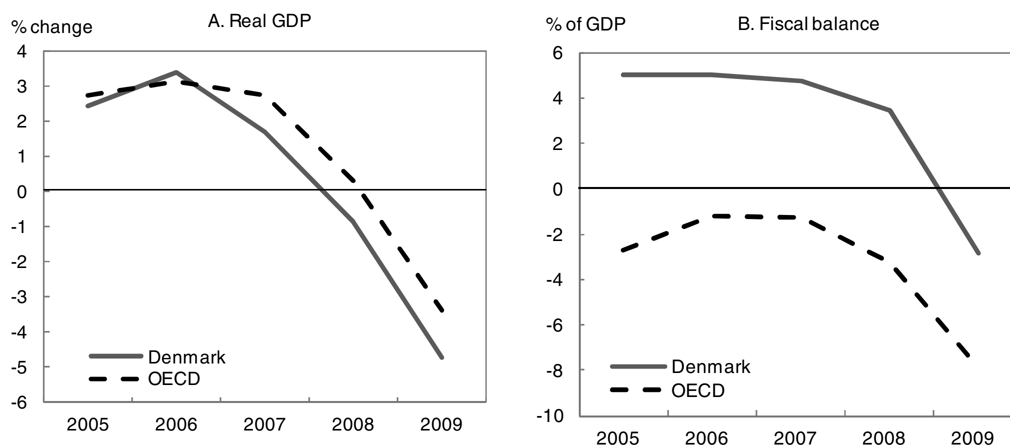
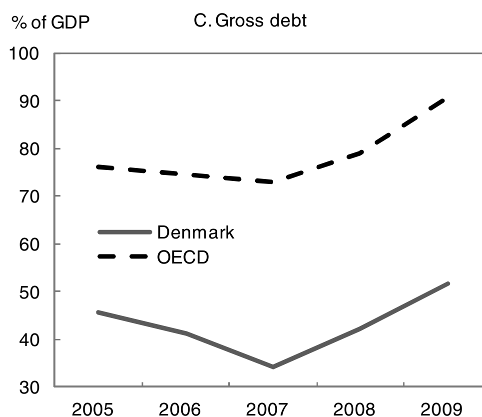


Figure 1. **Key economic indicators** *(cont'd)*



Notes: Fiscal balance and gross debt are general government financial balance and gross financial liabilities as a per cent of nominal GDP.

Source: OECD (2010), "OECD Economic Outlook No. 88", *OECD Economic Outlook: Statistics and Projections* (database), http://dx.doi.org/10.1787/data-00533-en.

2. The government's fiscal consolidation strategy

The key challenge for economic policy now is to consolidate and restore fiscal balance. The deficit in public finances was expected to constitute 4.5 % of GDP in 2010. According to the Danish authorities, delaying fiscal consolidation would both increase the required future consolidation and expose the Danish economy to unnecessary risks. Firstly, large government deficits and rising debt levels may undermine confidence in financial markets and push interest rates up, which can weaken both housing markets and employment. Secondly, Denmark would be at risk of being exposed to pressure on the Danish currency – as was the case in the autumn of 2008. Thirdly, when public debt increases, interest payments take up a larger share of public spending.

The government deems it necessary to begin consolidating public finances in 2011. A political agreement on fiscal consolidation was reached in May 2010. The agreement outlines that public finances will be strengthened by DKK 24 billion towards 2013. The agreement will improve the public budget by a further DKK 2 billion in 2015.

The Danish government considers that the fiscal agreement constitutes a significant step in achieving fiscal objectives by 2015:

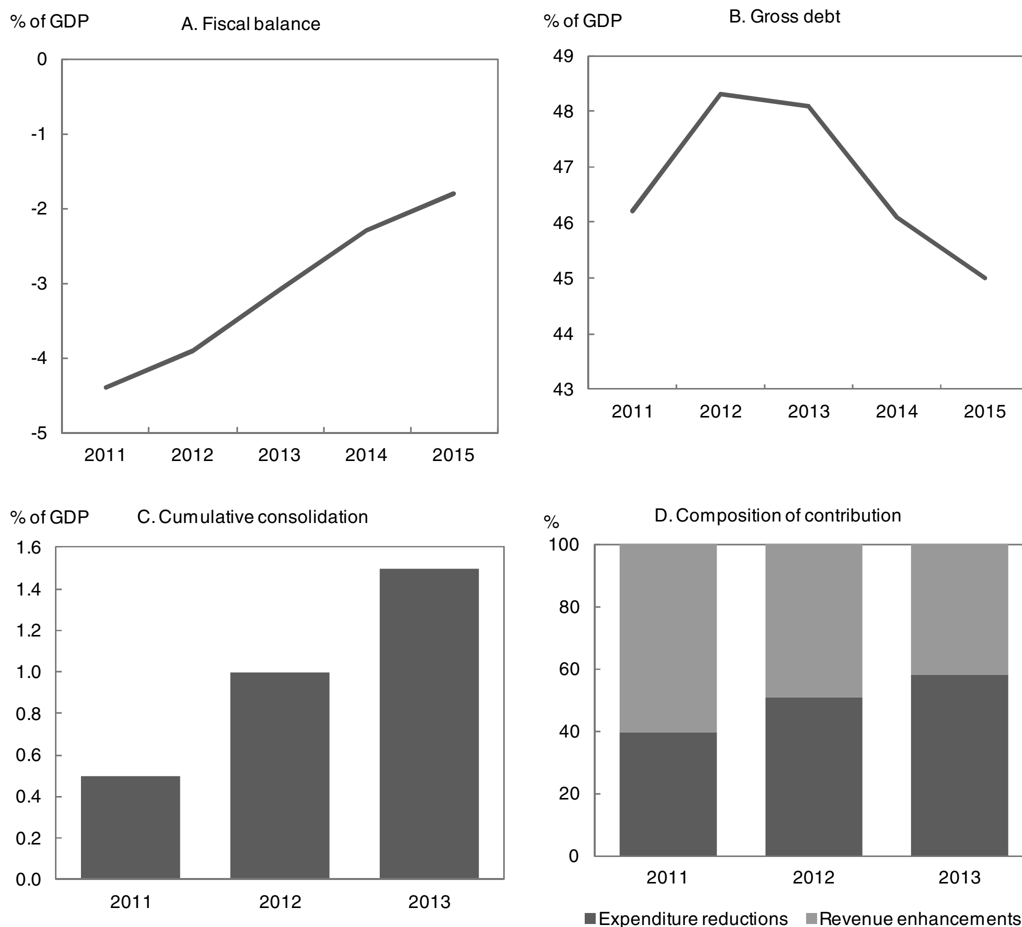
- The key objective is to achieve structural balance in 2015. It requires new initiatives that strengthen the finances by DKK 31 billion.
- Strengthen the structural balance by 0.5% of GDP on average per year during 2011-13. This requires initiatives of DKK 24 billion compared to previous priorities.

While structural balance is the objective for 2015, the general government deficit is projected to reach slightly above 2% of GDP in 2015 based on a gradual adjustment (Figure 2A). After an initial increase during the consolidation period, the gross

debt-to-GDP ratio is expected to fall and reach pre-crisis levels in 2015 (Figure 2B). Regarding areas shielded from consolidation, the current budget for welfare services in the municipalities will be maintained at 2010-budget levels, adjusted annually with the increase in prices and wages.

The Danish consolidation plan envisages a constant pace of fiscal tightening over the period starting in 2011 with an annual tightening of 0.5% of GDP, reaching a cumulative consolidation of 1.5% of GDP in 2013 (Figure 2C). In the first year, the consolidation plan relies more on revenue enhancements than expenditure cuts. The opposite is the case from 2013 onwards: expenditure cuts stand for the bulk of the planned consolidation (Figure 2D).

Figure 2. **The government's planned fiscal adjustments**



Note: Fiscal balance and gross debt are general government financial balance and gross financial liabilities on a Maastricht basis in per cent of nominal GDP. Fiscal consolidation is cumulative consolidation in per cent of GDP. The composition of the contribution to fiscal consolidation is expenditure reductions and revenue enhancements (total = 100%). OECD calculations.

Sources: "OECD Fiscal Consolidation Survey 2010"; Denmark's Convergence Programme 2010; the Government's Fiscal Consolidation Agreement.

3. Major fiscal consolidation measures

Containing public consumption in ministries contributes substantially to the consolidation of public finances. On the revenue side, keeping nominal tax thresholds (not indexing for inflation) contributes the most at around 0.33% of GDP in 2013.

Table 1. **Major consolidation measures**

Billions DKK (% of GDP[1])

		Budgetary impact 2011-13
Expenditures		**14.3 (0.72)**
1. Operational measures		10.5 (0.53)
– Public consumption	Growth (in real terms) will be kept "at bay" in 2011-13.	10.5 (0.53)
– Operating costs in ministries	In the national government general savings of 0.5% of GDP per year in 2011-13 will be implemented.	
2. Programme measures		3.75 (0.19)
– Education and culture	Savings at the national level on education and culture are implemented in the consolidation plan.	n.a.
– Development aid	Development aid will be kept at 2010 nominal level.	n.a.
– Unemployment benefits	The duration of the unemployment benefit period is reduced from four to two years.	n.a.
– Child benefits	Overall reduction of child benefits is foreseen.	n.a.
3. Other initiatives		
Revenues		
– Income taxes	The automatic adjustment of the threshold for taxes, etc., will be suspended over 2011-13. It includes personal tax deduction and the income limit for top-bracket tax in addition to a number of other boundaries and thresholds in the tax system.	6.5 billion in 2013 (0.33)
	The previously planned increase in the income limit for top-bracket tax in 2011 will be postponed for three years until 2014.	2 billion annually (0.10)
– Tax deductions	An annual ceiling of DKK 3 000 on tax deduction of union fees and employer contributions. It will, *inter alia*, strengthen the incentive to reduce costs and hence the fees in the unions.	1.5 billion annually (0.08)

1. OECD calculations using OECD forecasts of nominal GDP for 2013.

Sources: "OECD Fiscal Consolidation Survey 2010"; Denmark's Convergence Programme 2010; the Government's Fiscal Consolidation Agreement.

Table 2. **The government's fiscal consolidation plan**

% of GDP

Fiscal consolidation	2011	2012	2013	2014	2015
Consolidation volume (cumulative)	0.5%	1.0%	1.5%		
Total deficit(-)/ surplus(+)	-4.4%	-3.9%	-3.1%	-2.3%	-1.8%
Total level of debt	46.2%	48.3%	48.1%	46.1%	45%
Fiscal consolidation by expenditure reductions and revenue enhancements (total = 100%)					
Expenditure reductions	39%	51%	58%		
Revenue enhancements	61%	49%	42%		

Sources: "OECD Fiscal Consolidation Survey 2010"; Denmark's Convergence Programme 2010; the Government's Fiscal Consolidation Agreement.

Table 3. **Fiscal consolidation agreement May 2010**

Billions DKK

	2011	2012	2013	2014	2015
Public administration	2.5	5.75	10.5	n.a.	10.5
Programme measures	0.75	2.25	3.75	n.a.	7.25
Revenues	5	7.75	10.25	n.a.	8.25
Total	8.25	15.75	24.5	n.a.	26

Sources: "OECD Fiscal Consolidation Survey 2010"; Denmark's Convergence Programme 2010; the Government's Fiscal Consolidation Agreement.

Estonia

1. Economic situation

In the years prior to the crisis, the Estonian economy enjoyed one of the highest growth rates among OECD member countries but growth became unbalanced. Following a period of construction-led overheating, domestic demand slumped. This was compounded by a collapse of foreign trade. The economy experienced a severe recession during 2008 and 2009, contracting by 20% from peak to trough. Recovery has been under way since late 2009 (Figure 1A).

Estonia had run fiscal surpluses since the early 2000s due to higher than expected revenues and a conservative fiscal policy, such as adopting a *de facto* balanced budget rule. In line with developments in the economy, Estonia experienced a deterioration of its fiscal balance from a surplus of 2.5% of GDP in 2007 to a deficit of 2.8% in 2008 (Figure 1B). General government debt rose slightly to 7.2% of GDP in 2009 (Figure 1C) but the debt-to-GDP ratio is still the lowest among OECD member countries. GDP growth picked up gradually in 2010, driven by recovering exports.

Figure 1. **Key economic indicators**

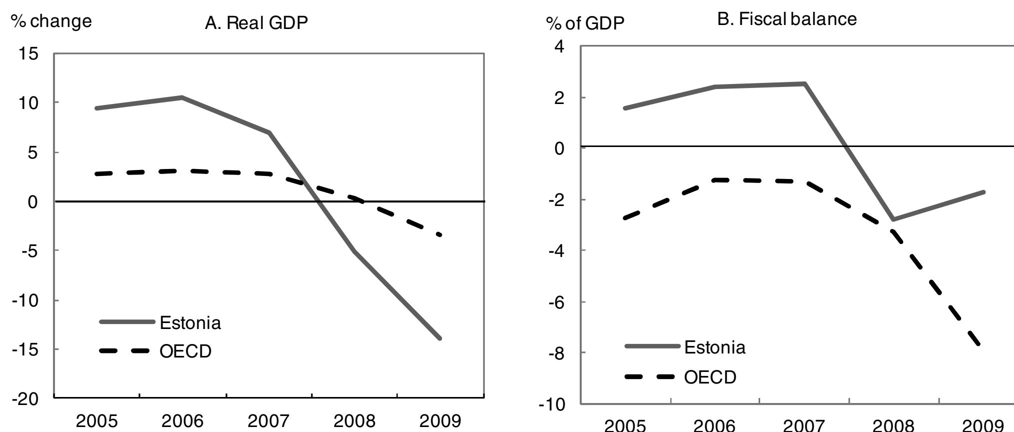
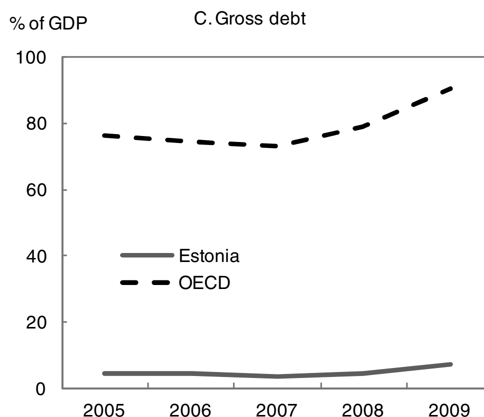


Figure 1. **Key economic indicators** *(cont'd)*



Note: Fiscal balance and gross debt are general government financial balance and gross financial liabilities as a per cent of nominal GDP.

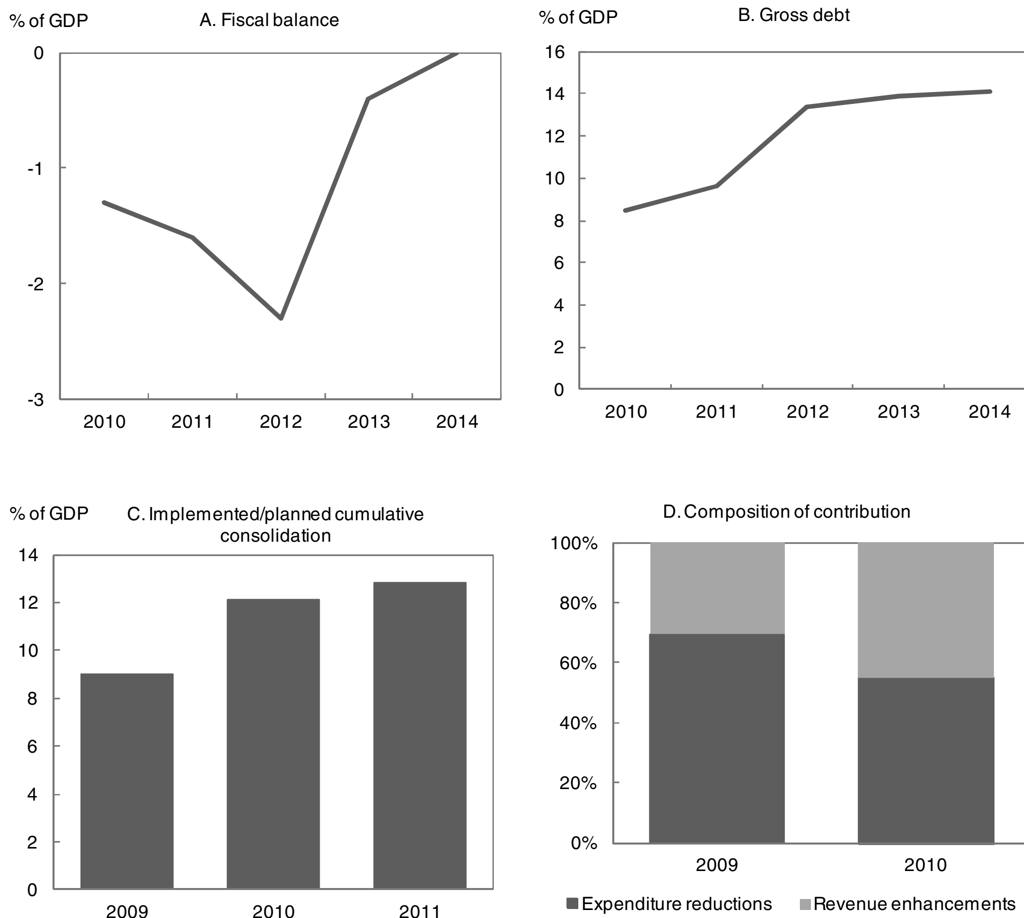
Source: Eurostat.

2. The government's fiscal consolidation strategy

Estonia started fiscal tightening in 2008, which was earlier than most other countries as the government's primary goal was to achieve a public deficit below 3% of GDP in order to qualify for euro adoption in January 2011. In particular, the government implemented consolidation measures to improve the budgetary position by EEK 19.2 billion (9% of GDP) in 2009 and by EEK 6.7 billion (3.1% of GDP) in 2010 (Figure 2C). The consolidation programme concentrated on reducing expenditures rather than enhancing revenues (Figure 2D).

The State Budget Strategy for 2011-14 adopted in May 2010 envisages achieving a fiscal balance by 2014 (Figure 2A). The government expects the gross debt to rise from 8.5% of GDP in 2010 to 13.4% in 2012 and then stabilise around 14%, which is still one of the lowest among OECD member countries (Figure 2B).

Figure 2. **The government's planned fiscal adjustments**



Notes: Fiscal balance and gross debt are general government financial balance and gross financial liabilities on a Maastricht basis as a per cent of nominal GDP. Fiscal consolidation is cumulative consolidation of federal government as a per cent of GDP. The composition of the contribution to fiscal consolidation is expenditure reductions and revenue enhancements (total = 100%). OECD calculations.

Source: "OECD Fiscal Consolidation Survey 2010".

3. Major consolidation measures

A number of measures have been introduced to contain pension expenditures such as limiting the rise in pension spending to 5% instead of the planned 14% increase and suspending contribution to the second pillar pension scheme. These measures amounted to 1.2% of GDP in 2009. Furthermore, reductions in operational budgets, including a 9% cut in personnel expenditures, were expected to yield savings of 1.1% of GDP in 2009-10.

To strengthen revenues, the government has relied more on non-tax revenues compared to other countries. Additional dividends from state-owned enterprises and selling of state-owned real estate are expected to have increased revenue by more than 2% of GDP in 2009-10. Over the same period, extra excise duties on alcohol, tobacco and fuel are also estimated to enhance revenue by around 0.8% of GDP.

Table 1. **Major consolidation measures**

Millions EEK (% of GDP[1])

		Budgetary impact (implemented 2009)	Budgetary impact (implemented 2010)
Expenditures		**13 370 (6.16)**	**3 563 (1.62)**
1. Operational measures		1 576 (0.73)	905 (0.41)
– Operational expenditures	Operational budget cuts, including personnel expenditures.	1 576 (0.73)	905 (0.41)
2. Programme measures		7 111 (3.28)	158 (0.07)
– Pension	Suspending the second pillar funded pension scheme.	1 336 (0.62)	
	Decreasing the raise in pensions (raise 5% instead of planned 14%).	1 223 (0.56)	
– Social security	Reduction of health insurance costs.	612 (0.28)	
	Introduction of changes in employment act, etc.	769 (0.35)	
	Reform of sick-note compensation scheme.	312 (0.14)	
	Decrease in the liabilities of health insurance fund.	110 (0.05)	
– Defence expenditures		484 (0.22)	158 (0.07)
– Construction	Road maintenance.	815 (0.38)	
– Transfers to local governments	Decreasing the share of income tax received by municipalities, etc.	600 (0.28)	
– Lending to local municipalities	Limiting lending to local government.	500 (0.23)	
– Investments	Environmental investments.	350 (0.16)	
3. Other initiatives			
– Other measures to improve the budget position	Numerous measures.	4 683 (2.16)	2 500 (1.13)
Revenues		**5 870 (2.71)**	**2 917 (1.32)**
– VAT	Increasing the VAT tax rate from 18% to 20%, etc.	800 (0.37)	20 (0.01)
– Social security contributions	Raising the unemployment insurance tax up to 4.2%.	785 (0.36)	
– Excise duties	Increasing excise duties on alcohol, tobacco, fuel, gas, and electricity.	519 (0.24)	1 195 (0.54)
– Non-tax revenues	Additional dividends from state-owned enterprises.	1 700 (0.78)	686 (0.31)
	Sale of real estate and land.	1 188 (0.55)	1 016 (0.46)
– Other		878 (0.40)	

1. OECD calculations using nominal GDP for 2009-10. Incremental numbers in 2010.

Source: "OECD Fiscal Consolidation Survey 2010".

Pension reform

The State Pension Insurance Act was amended in April 2010, effective since January 2011, to increase the pensionable age by three months per year starting in 2017 to reach 65 years by 2026.

Table 2. **The government's fiscal consolidation plan**

% of GDP

Fiscal consolidation	2009	2010	2011	2012	2013	2014
Consolidation volume (cumulative)	9.0%	12.1%	12.8%			
Total deficit(-)/ surplus(+)		-1.3%	-1.6%	-2.3%	-0.4%	0%
Total level of debt		8.5%	9.6%	13.4%	13.9%	14.1%
Fiscal consolidation by expenditure reduction and revenue enhancement (total = 100%)						
Expenditure reductions	69.5%	55.0%				
Revenue enhancements	30.5%	45.0%				

Source: "OECD Fiscal Consolidation Survey 2010".

Finland

1. Economic situation

Finland entered the recession with its public finances in a favourable position owing to sound budgeting over the past decade. As a small open economy, Finland was hit hard by the economic crisis in 2009 with its GDP dropping significantly more than the OECD average. The general government balance, however, deteriorated only modestly to a deficit of 2.7% of GDP in 2009. This was the first time the general government balance had turned negative since 1997.

Public debt increased to around 53% of GDP, also a modest level compared to other OECD member countries. Strong export growth is expected to boost the economy considerably over the medium term. The economic rebound, removal of fiscal stimulus packages and revenue measures will most likely close the fiscal deficit swiftly.

Figure 1. **Key economic indicators**

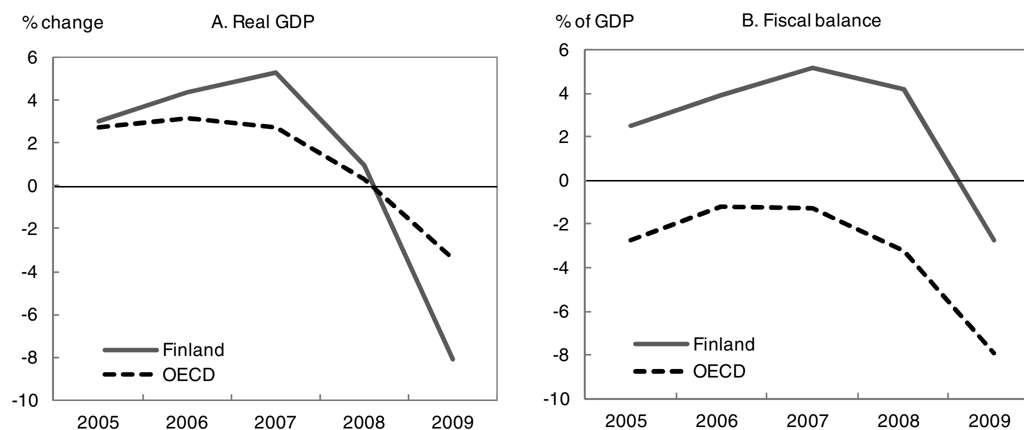
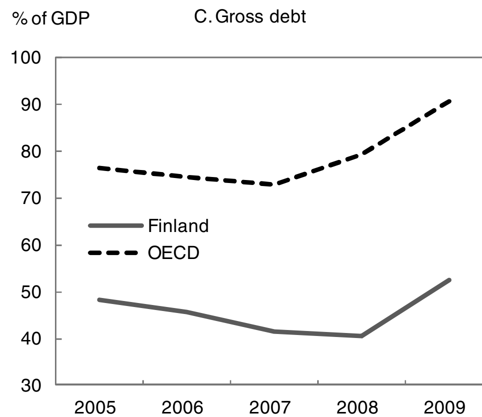


Figure 1. **Key economic indicators** *(cont'd)*



Notes: Fiscal balance and gross debt are general government financial balance and gross financial liabilities as a per cent of nominal GDP.

Source: OECD (2010), "OECD Economic Outlook No. 88", *OECD Economic Outlook: Statistics and Projections* (database), http://dx.doi.org/10.1787/data-00533-en.

2. The government's fiscal strategy

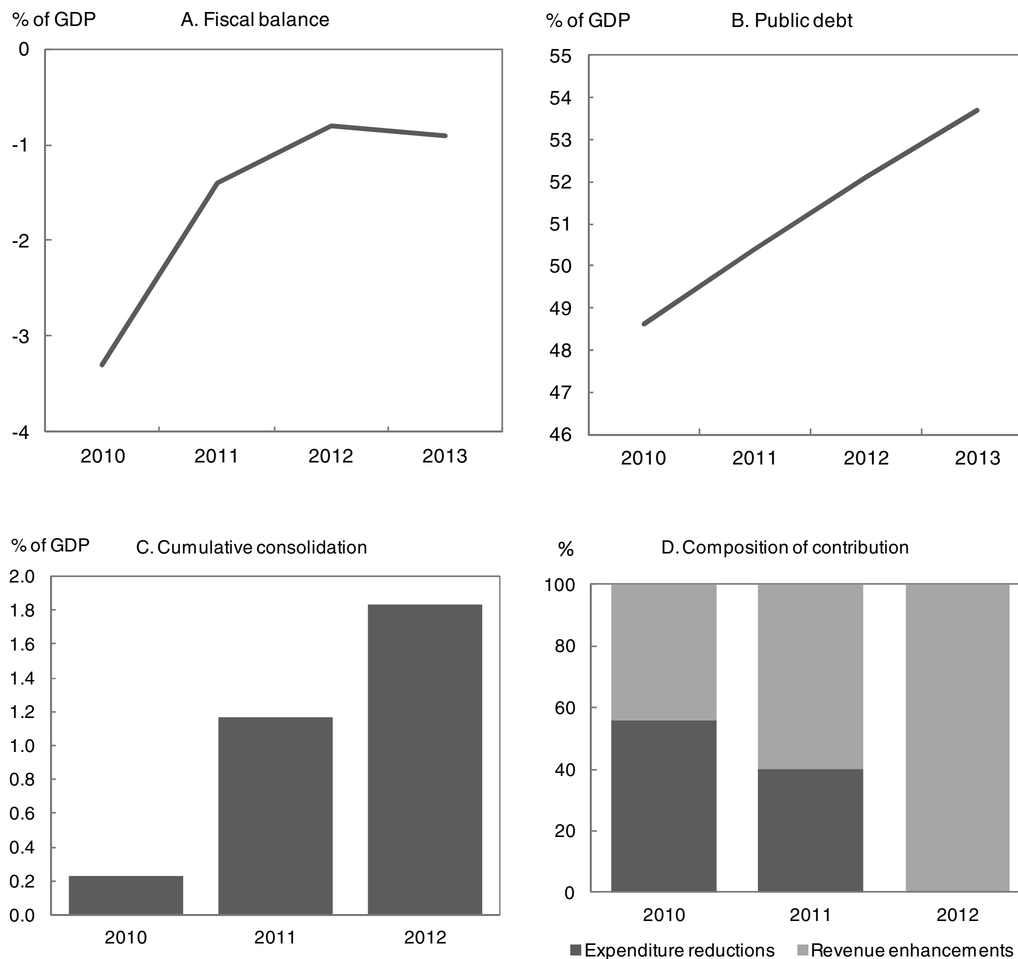
The government stated in 2010 that it will prepare a plan for stabilising public finances as well as how it intends to close the sustainability gap related to future ageing-related costs. The plan will cover the next two four-year parliamentary terms.

Some measures have already been announced. In the government's budget proposal for 2011 the fiscal stance shifts from being expansionary in 2010 to a gradually tighter fiscal policy. The central government budget deficit is expected to decrease by EUR 2.4 billion from 2010 to 2011. Only a few first steps towards tightening fiscal policy have been taken and authorities have projected that economic growth in 2011 will be strong enough to not be damaged by these steps. The deficit and debt will be steadily reduced on the back of the forecasted economic upswing, withdrawal of one-off fiscal stimulus packages and revenue measures particularly the VAT increase of 1 percentage point (Figure 2A and B). The bulk of the consolidation will place in 2011, with an overall fiscal tightening projected as 0.9% of GDP, 0.3% from the removal of stimulus packages and 0.6% from net tax increases (Figure 2C). Revenue enhancements dominate in the consolidation plan in 2011 and 2012 (Figure 2D).

Finland kept its expenditure ceilings set in 2007 for the term 2008-11 through the crisis and is expecting to keep them for 2011 as well. On the other hand, Finland had to abandon all three of its different surplus targets during the recession. The Finnish expenditure ceiling covers 75% of central government expenditure. The automatic stabilisers as well as financial investments are excluded from the expenditure ceiling. In order to keep the expenditure ceiling, some stimulus measures were covered by reallocations within the budget. In addition, there were stimulus measures in the form of financial investments (loans, capitalisations and central government guarantees). The expenditure ceiling does not include a clause or allow to break the expenditure rule due to exceptional circumstances.

In Finland, the local governments have a very high degree of autonomy. However, local governments could be included in the forthcoming consolidation strategy. Substantial future expenditures linked to the ageing of the population will hit local governments the hardest.

Figure 2. **The government's planned fiscal adjustments**



Notes: Fiscal balance and public debt are general government financial balance and gross financial liabilities on a Maastricht basis as a per cent of nominal GDP. Fiscal consolidation is cumulative consolidation as a per cent of GDP. The composition of the contribution to fiscal consolidation is expenditure reductions and revenue enhancements (total = 100%). OECD calculations.

Source: "OECD Fiscal Consolidation Survey 2010".

3. Major fiscal consolidation measures

Finnish fiscal consolidation so far consists mainly of the removal of temporary and one-off stimulus measures implemented to support weak domestic demand. In addition, the government has reallocated from *inter alia* operational expenditures within the fixed spending ceiling to finance new prioritised items. Revenue enhancements, notably from

VAT and energy taxes, are improving the budgetary position over the period, amounting to 0.7% of GDP by 2012.

Table 1. **Major consolidation measures**

Millions EUR (% of GDP[1])

		2010	2011	2012
Expenditures[2]		**230 (0.13)**	**700 (0.38)**	
1. Operational measures		230 (0.13)	180 (0.10)	
– Measures to keep expenditures within the spending ceiling	Budget 2010: of which some operating expenditure cuts included.	230 (0.13)		
	Budget 2011: of which some operating expenditure cuts included.		180 (0.10)	
2. Programme measures			520 (0.28)	
– Stimulus measures come gradually to an end	Removal of temporary and one-off stimulus measures (projects, acquisitions, etc.) implemented during the financial crisis.		520 (0.28)	
3. Other initiatives				
	Loans to Greece and Latvia (one-off measure in 2010).		1 920 (1.02)	
Revenues		**180 (0.10)**	**1 060 (0.56)**	**1 290 (0.66)**
– VAT	Rates increase 1 percentage point to 23% (July 2010).	220 (0.12)	690 (0.37)	690 (0.35)
	Lowered VAT for restaurant meals (July 2010).	-90 (0.05)	-260 (0.14)	-260 (0.13)
– Energy taxes			700 (0.37)	700 (0.36)
– Consumption taxes	Tax on sweets, ice cream and soft drinks.		80 (0.04)	100 (0.05)
– Waste tax			40 (0.02)	40 (0.02)
– Income tax			-300 (0.16)	-300 (0.15)
– Tax on diesel fuel				200 (0.10)
– Vehicle tax (diesel vehicles)			-40 (0.02)	-80 (0.04)
– Other (net effect)		50 (0.03)	150 (0.08)	200 (0.10)

1. OECD calculations using OECD forecasts of nominal GDP.
2. Without loans.
3. In July 2010 all VAT rates were increased by one percentage point but the VAT on restaurant meals was lowered to the same level as the VAT on food. On an annual basis this increases net tax revenue by EUR 430 million (change from 2010 EUR 300 million).
4. The increase in energy taxes was decided when the decision was made to abolish the employers' national pension contributions in January 2010. The energy tax increase compensates the costs of abolishing this fee and does not therefore improve public finances as it compensates an earlier stimulus measure.

Source: "OECD Fiscal Consolidation Survey 2010".

Pension reform

In Finland, the ageing of the population is more pronounced than in other European countries and the need to stabilise public finances was well known before the beginning of the financial crisis in 2008. The crisis has worsened the starting situation markedly. During recent years there have been several working groups aiming to find measures to encourage people to retire later.

Table 2. **The government's fiscal consolidation plan**

% of GDP[1]

Fiscal consolidation	2010	2011	2012	2013
Consolidation volume	0.23%	1.17%	1.83%	
Total deficit(-)/ surplus(+)	-3.3%	-1.4%	-0.8%	-0.9%
Total level of debt	48.6%	50.4%	52.1%	53.7%
Fiscal consolidation by expenditure reduction and revenue enhancement (total = 100%)				
Expenditure reductions	56%	40%	0%	
Revenue enhancements	44%	60%	100%	

1. OECD calculations.

Source: "OECD Fiscal Consolidation Survey 2010".

France

1. Economic situation

The French economy experienced a relatively shallow recession in 2009 with GDP contracting 2.5% (Figure 1A). For much of the past decade, however, growth in France has fallen short of the OECD average and is forecast by the OECD to rebound by only 1.7% in 2011, led by business investments, exports and the end of destocking. France has not recorded a budget surplus in more than 25 years and, despite a relatively moderate fall in GDP, the deficit reached 7.6% of GDP in 2009 (Figure 1B).

Gross debt has risen in line with the OECD average over the past few years, as the borrowing requirement increased in line with the widening budget deficit. In 2009, gross debt measured 87.1% of GDP (Figure 1C).

Figure 1. **Key economic indicators**

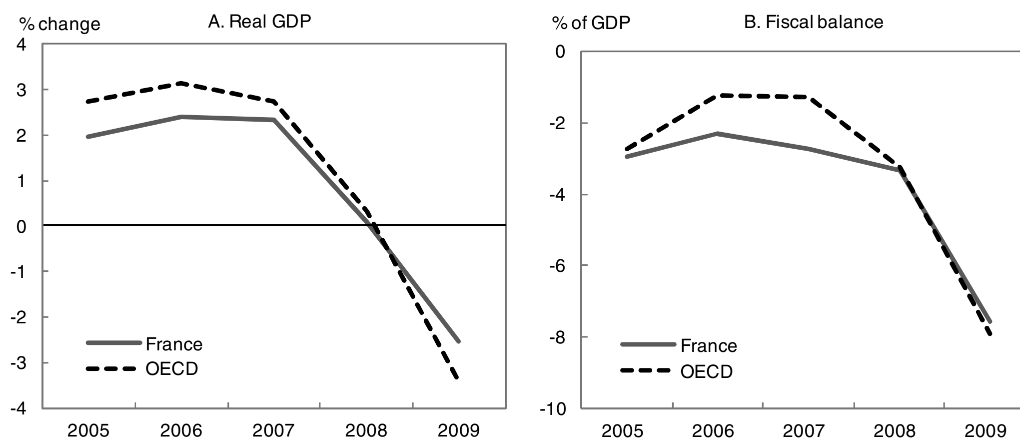
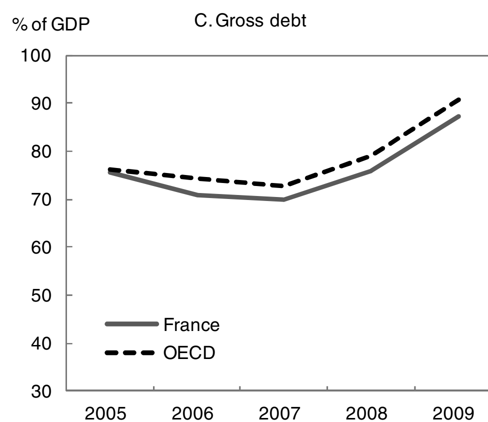


Figure 1. **Key economic indicators** *(cont'd)*



Notes: Fiscal balance and gross debt are general government financial balance and gross financial liabilities as a per cent of nominal GDP.

Source: OECD (2010), "OECD Economic Outlook No. 88", *OECD Economic Outlook: Statistics and Projections* (database), http://dx.doi.org/10.1787/data-00533-en.

2. The government's fiscal consolidation strategy

The French government has stated its objective to gradually reduce the deficit to 3% of GDP by 2013 (Figure 2A). To achieve this target, the fiscal consolidation effort would need to be one of the largest France has implemented in the post-war era. The French government has entrusted a number of public finance working groups with formulating budget recommendations that would restore balance to France's public finances (see Section 4).

Plans are also under way to reform France's institutional budgeting framework, including constitutional reform that would support the implementation of fiscal rules in an effort to reduce public debt.

The primary objective of the government's fiscal strategy is to pursue structural reforms that encourage growth and to enhance the control of public spending, rather than raising taxes in isolation. According to the authorities, France has shielded future-oriented investments from its consolidation efforts. The government has also stated that it does not intend to substantially increase tax rates (which are among the highest in Europe) to avoid damaging growth.

The government aims to enhance the control of public spending by all sub-sectors of general government, which implies halving its rate of growth compared to historical rates, and to make targeted reductions in tax loopholes in order to reduce the deficit. The Multi-year Public Finance Planning Act for 2011-14, which was voted by Parliament in December 2010, details the French medium-term public finances strategy and how it intends to meet these objectives:

- multi-year ceilings for state expenditures, with a double constraint (zero growth in real terms for state spending as a whole, and zero growth in nominal terms for state spending excluding interest expenditure and pensions); the three-year state budget for 2011-13 details these ceilings mission by mission;
- multi-year ceilings for healthcare expenditures, with an obligation to set aside funds to help respect the objectives and to take corrective action in case of overrun;
- zero growth in nominal terms for transfers from the state to local authorities;
- mandatory minimal increase in public revenues by EUR 3 billion per year, mainly through further reductions in tax expenditures.

To meet its 2011 deficit target of 6% of GDP, the government proposed a fiscal tightening measuring EUR 46 billion (or 2.3% of GDP) in 2010 which includes the withdrawal of EUR 15 billion in fiscal stimulus measures. A further tightening of 0.9% of GDP is envisaged over 2012-14 (Figure 2C). The expenditure reductions are slightly higher than revenue enhancements in 2011, and the expenditure share increases somewhat over 2012-14 (Figure 2D). The government expects gross debt to steadily increase to 87% of GDP in 2013 (Figure 2B).

Figure 2. **The government's planned fiscal adjustments**

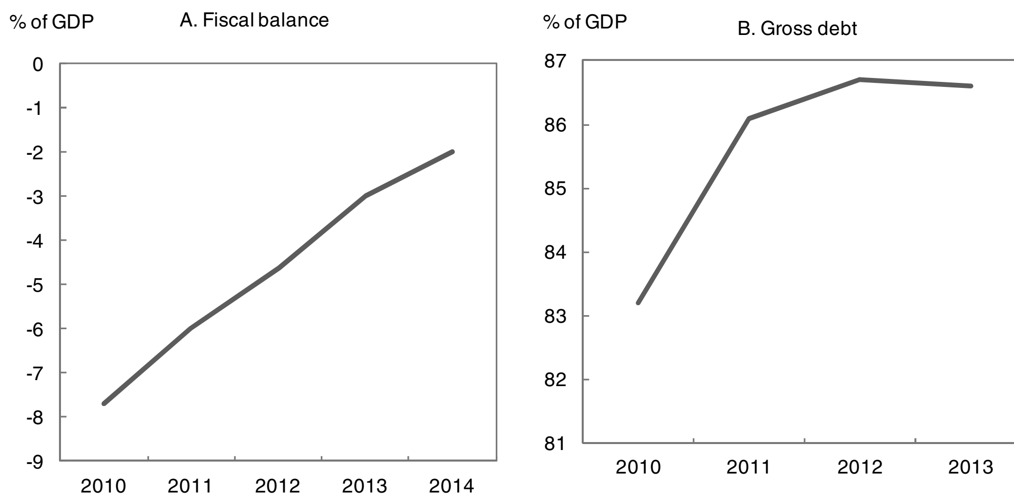
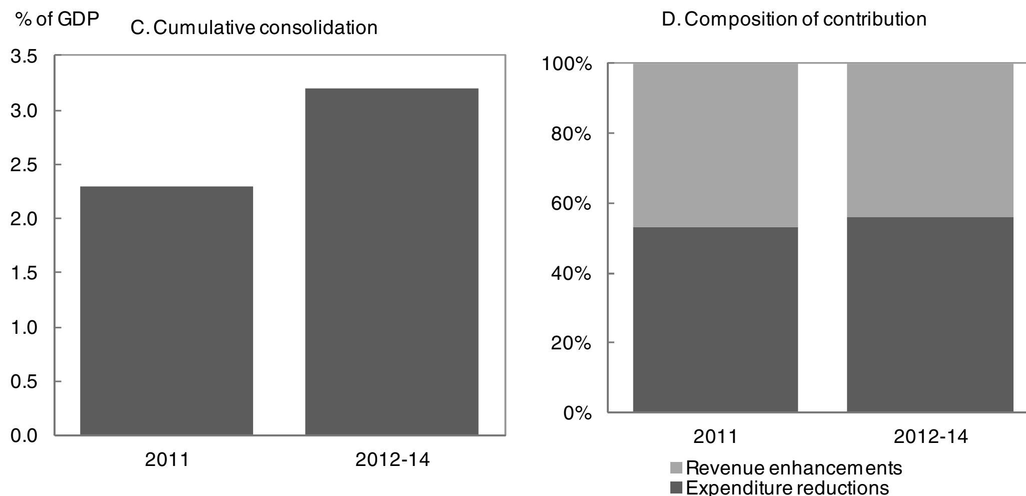


Figure 2. **The government's planned fiscal adjustments** *(cont'd)*



Notes: Fiscal balance and gross debt are general government financial balance and gross financial liabilities on a Maastricht basis in per cent of nominal GDP. Fiscal consolidation is cumulative consolidation as a per cent of GDP. The composition of the contribution to fiscal consolidation is expenditure reductions and revenue enhancements (total = 100%). OECD calculations.

Sources: "OECD Fiscal Consolidation Survey 2010" ; France's Convergence Programme 2010.

3. Major consolidation measures

The 2011 budget bill aims to save EUR 15 billion or 0.75% of GDP by not renewing some of the support given to the economy in the downturn, and roughly EUR 7 billion from civil service measures including a temporary pay freeze, not hiring for retiring civil servants and a spending cap. A spending limit on health expenditures contributes EUR 2.5 billion in 2011. Tax increases and reduced tax expenditures amount to 1.1% of GDP in 2011. France expects that the pension reform will have significant effects even over the medium term: it will reduce the public deficit by about 0.5 percentage points of GDP by 2013.

Table 1. **Major consolidation measures**

Billions EUR (% of GDP[1])

		2011	2012-14
Expenditures		**24.5 (1.23)**	**11.5 (0.52)**
1. Operational measures		7.0 (0.35)	1.5 (0.07)
– Public consumption	Real government spending will be frozen for the three-year period spanning 2011-13 (excluding interest payments and state employee pensions). The increase in overall nominal public spending growth will be limited to 0.8% from 2011-14. Central government current expenditure will be cut 10% over three years, starting with 5% in 2011. Nominal freeze on operating transfers from central to local governments. Freeze on nationwide safety and other regulatory norms.	7.0 (0.35)	
– Wages	The underlying base for public sector wages will be stable in nominal terms in 2011.		
– Staffing	In the next three years, only one out of two retiring state employees will be replaced, leading to a projected 97 000 public job cuts.		1.5 (0.07) by 2013
2. Programme measures		17.5 (0.88)	10 (0.45)
– Withdrawal of stimulus measures		15.0 (0.75)	
– Health	Spending rule for healthcare expenditures (ONDAM).	2.5 (0.13)	
– Pension reform	Net consolidation effect.		10 (0.45) by 2013
Revenues		**21.5 (1.08)**	**9 (0.40)**
– Income tax	Increase in the top income tax rate from 40% to 41%.	10.0 (0.50)	
– Real estate gains tax	Capital gains tax on real estate to rise from 16% to 19%. Tax from capital gains and dividends on securities to rise from 18% to 19%.		
– Bank tax	A tax on banks is introduced.	0.5 (0.03)	
– Tax expenditures	Reduction in tax expenditures.	11.0 (0.55)	9 (0.40) 3 per year 2012-14

1. OECD calculations using OECD forecasts of nominal GDP.

Source: "OECD Fiscal Consolidation Survey 2010".

Pension reform

France's legal minimum/standard retirement age will gradually increase from 60 to 62 years by 2018. The full pension benefit age will increase from 65 to 67 years by the same date. This increase, combined with a rise in the required number of years of contribution to claim a full pension benefit (from 40.5 to 41.5 years) will provide incentives for people to work longer. These incentives will be reinforced by a new financial incentive scheme for every company to hire unemployed workers aged over 55. Pension privileges for civil servants will be gradually phased out, and social contributions will be aligned to those in the private sector. The age of retirement will rise by four

months per year, which is very fast compared to international standards according to the authorities.

4. Institutional reforms

Four working groups were set up in 2010 to recommend ways to restore balance to France's public finances. The groups were deemed to be trans-partisan and were comprised of government, parliament, private sector and community officials. The groups provided recommendations for controlling local authorities' expenditure, improving the management of healthcare spending, and handling the increasing social security debt. A fourth group was responsible for proposing a fiscal rule that would balance public finances.

According to the authorities, plans are under way to reform France's institutional budgeting framework. Reform would include fiscal rules to reduce public debt and would require constitutional reform. In one proposal, the government would be required to set out a binding five-year strategy for reducing the structural deficit from 2012, and set a date for returning to balance.

Table 2. **The government's fiscal consolidation plan**

% of GDP

Fiscal consolidation	2010	2011	2012	2013	2014
Consolidation path		2.3%			3.2%
Total deficit(-)/ surplus(+)	-7.7%	-6.0%	-4.6%	-3.0%	-2.0%
Total level of debt	83.2%	86.1%	86.7%	86.6%	
Fiscal consolidation by expenditure reductions and revenue enhancements (total = 100%)					
Expenditure reductions		53%		56%[1]	
Revenue enhancements		47%		44%[1]	

Notes: The 2011 consolidation effort is based on the Multi-year Public Finance Planning Act for 2011-14, voted 28 December 2010. Deficit and debt figures from the January 2010 update to the EU Stability Programme.

1. Data for the period 2012-14.

Source: "OECD Fiscal Consolidation Survey 2010".

Germany

1. Economic situation

The German economy contracted by 4.9% in 2009 as export orders fell sharply in response to the global economic slowdown (Figure 1A). Germany balanced its budget in the two years prior to the economic crisis, but the fiscal balance quickly became negative as stimulus measures were adopted in response to the recession and automatic stabilisers played their role. Germany's budget deficit measured 3.0% of GDP in 2009 (Figure 1B).

Gross debt has increased only moderately in recent years to account for 76.5% of GDP in 2009, benefiting from a relatively conservative fiscal stance in the years leading up to the crisis (Figure 1C).

The economy is recovering on the back of business investment, strong export growth, and a robust and flexible labour market. The OECD projects that the pre-crisis real GDP level will be reached during 2011.

Figure 1. **Key economic indicators**

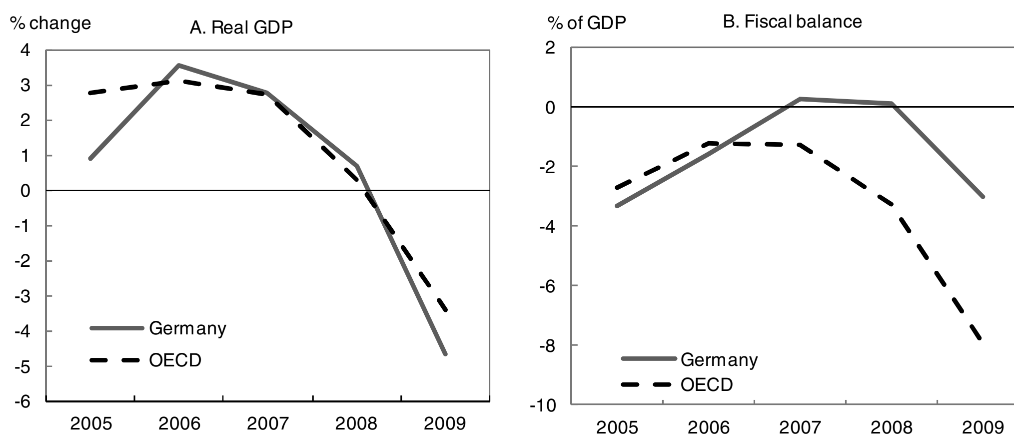
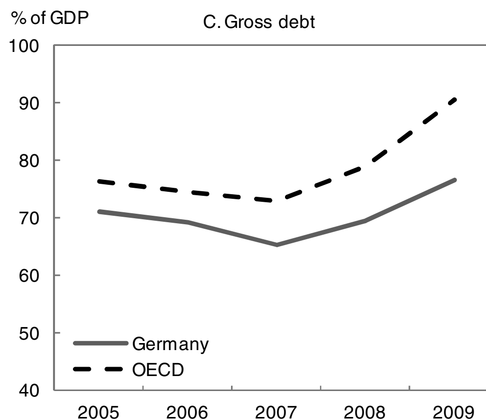


Figure 1. **Key economic indicators** *(cont'd)*



Note: Fiscal balance and gross debt are general government financial balance and gross financial liabilities as a per cent of nominal GDP.

Source: OECD (2010), "OECD Economic Outlook No. 88", *OECD Economic Outlook: Statistics and Projections* (database), http://dx.doi.org/10.1787/data-00533-en.

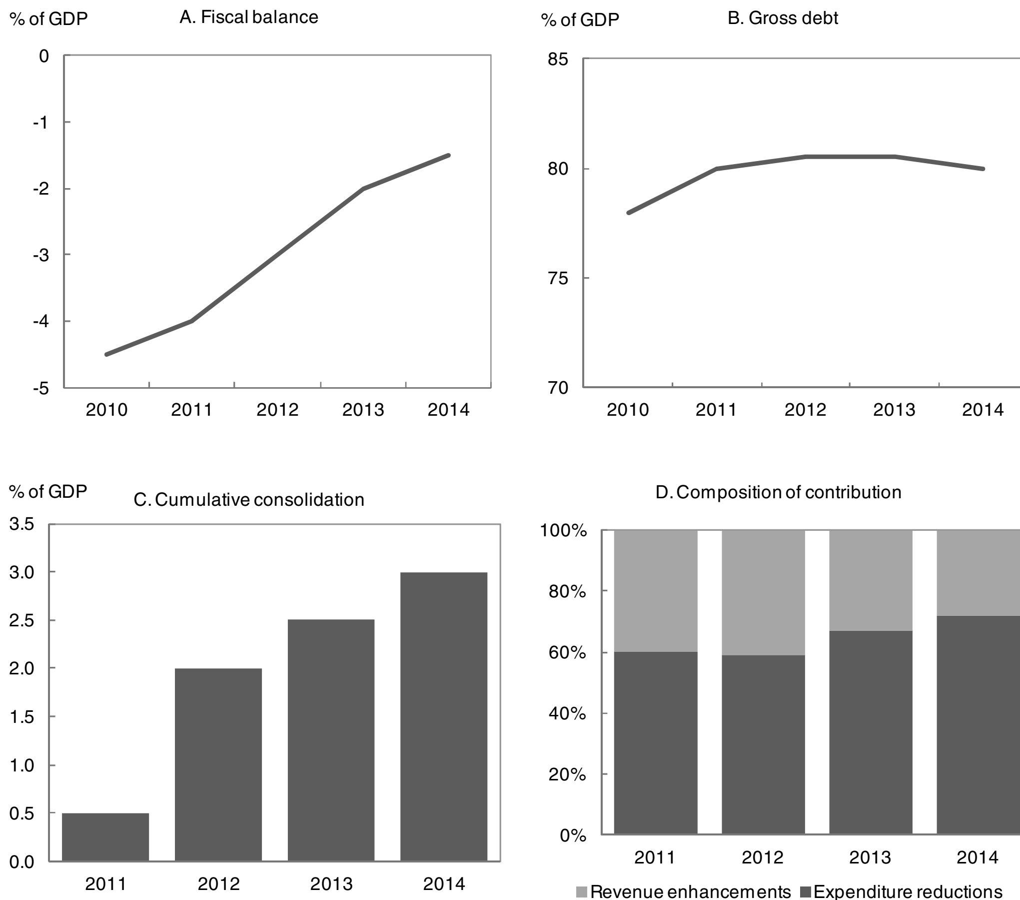
2. The government's fiscal consolidation strategy

Germany plans to reduce its budget deficit to below 3% of GDP by 2012 at the latest. The government has also announced its intent to reduce the structural deficit by 0.5% annually from 2011 onwards. Longer term fiscal consolidation will also benefit from implementation of a new fiscal rule anchored in Germany's constitution. Starting in 2011, the new budget rule (the debt-brake) will limit the federal government's structural deficit. During this transition, the federal government's structural deficit will be reduced stepwise from 1.9% of GDP in 2011 to a maximum of 0.35% of GDP from 2016 onwards. In addition, German states (*Länder*) will be required to balance their budgets in structural terms from 2020 onwards. Lower levels of government will therefore contribute substantially to the longer-term consolidation efforts under way in Germany.

In June 2010, the government announced plans for an ambitious consolidation programme beginning in 2011 that will help Germany meet its structural deficit target over the medium term. In addition to phasing out temporary fiscal stimulus measures, Germany announced a EUR 80 billion consolidation programme (3% of GDP) to be implemented over the four-year period beginning in 2011 (Figure 2C). Two-thirds of the measures are expenditure-based cuts (Figure 2D).

Germany's 2011 federal budget and accompanying 2011-14 fiscal plan also support this path, setting out an eight-point plan focusing on prioritising education, creating prospects for higher growth and employment, and assuring solid public finances. The government forecasts that Germany's deficit of 3.7% of GDP in 2010 would narrow to less than 1.5% of GDP by 2014 as the consolidation measures are implemented (Figure 2A). Gross debt is projected to be stable over the medium term, reaching a high of 80.5% in 2012 (Figure 2B).

Figure 2. **The government's planned fiscal adjustments**



Note: Fiscal balance and gross debt are general government financial balance and gross financial liabilities on a Maastricht basis as a per cent of nominal GDP. Fiscal consolidation is cumulative consolidation as a per cent of GDP. The composition of the contribution to fiscal consolidation is expenditure reductions and revenue enhancements (total = 100%). OECD calculations.

Source: "OECD Fiscal Consolidation Survey 2010".

3. Major consolidation measures

The largest consolidation measure on the expenditure side is the reduction of social security and unemployment benefits including the readjustment of parental and housing benefits. Savings from these measures will amount to 1.13% of GDP in 2011-14. Up to 10 000 staffing positions will be permanently abolished by 2014.

On the revenue side, the government has announced a number of new taxes including a nuclear fuel tax and a bank tax. Particularly, the financial transaction tax (FTT) will be implemented for an appropriate involvement of financial markets to finance the cost of economic crises. The tax will bring additional EUR 6 billion (0.21% of GDP) by 2014. Over the same period, reducing energy tax exemptions and introducing an airline travel tax will increase revenues by 0.19% of GDP.

Table 1. **Major consolidation measures**

Billions EUR (% of GDP[1])

		Budgetary impact[2] 2011-14
Expenditures		**55.1 (1.92)**
1. Operational measures		3.2 (0.11)
– Federal administration wage and job cuts	Savings in federal administration including staffing and remuneration cuts. Up to 10 000 staffing positions to be permanently abolished by 2014.	3.2 (0.11)
2. Programme measures		51.9 (1.81)
– Social security and unemployment benefits	Increasing the targeted incentives for employment and readjustment of parental and housing benefits.	32.3 (1.13)
– Defence	Structural reforms in federal armed forces, including a 40 000 reduction in headcount.	4.0 (0.14)
– Other departmental spending	Expenditure cuts in all areas of the federal budget (excluding education and research).	15.6 (0.54)
3. Other initiatives	EUR 2 billion grant to keep statutory health insurance contributions at stable level in 2011.	
Revenues		**24.7 (0.86)**
– Ecological tax	Reduced energy tax exemptions, and introduction of "ecological" airline travel tax (travel beginning January 2011).	5.5 (0.19)
– Nuclear fuel tax	Nuclear power industry to begin paying nuclear fuel tax.	9.2 (0.32)
– Financial transaction tax	Introduction of the FTT to finance the cost of economic and financial crisis.	6.0 (0.21)
– Other		4.0 (0.14)

1. OECD calculations using OECD forecasts of nominal GDP for 2014.
2. The table contains measures and the amount of budgetary impact of the legislative package. The package was modified in the parliamentary discussion, which ended in November 2010. The amount of budgetary impact, however, is nearly unchanged over the whole period.

Source: "OECD Fiscal Consolidation Survey 2010".

Pension reform

In 2007 Germany announced that the statutory retirement age would increase gradually from 65 to 67, to be phased in over the period 2012-29.

4. Institutional reforms

Germany implements the new fiscal rule referred to as the “debt-brake” with the 2011 federal budget, starting with a transition period. Anchored in the Constitution, the new budget rule limits the federal government structural deficit to 0.35% of GDP from 2016, while the states (*Länder*) must balance their budgets in structural terms from 2020.

Table 2. **The government’s fiscal consolidation plan**

% of GDP

Fiscal consolidation	2010	2011	2012	2013	2014
Consolidation measures (cumulative)[1]		0.5%	2.0%	2.5%	3.0%
Total deficit/surplus[2]	-3.7%	-3.0%	-3.0%	-2.0%	-1.5%
Total level of debt[2]	75.5%	77.0%	80.5%	80.5%	80.0%
Composition of fiscal consolidation (total = 100%)					
Expenditure reductions		60%	59%	67%	72%
Revenue enhancements		40%	41%	33%	28%
Consolidation by level of government					
Central		98%	62%	28%	61%
Regional and local		27%	19%	40%	17%
Social security		-25%	20%	32%	22%

1. Swing in general government balance as defined in Germany’s survey response.

2. According to the government, the notification to the Stability Council from 30 November 2010 only included a forecast update for 2010 and 2011 which showed smaller ratios than in the July forecasts. As the values for the following years were already forecast in July 2010, they should turn out – analogously to the years before – to also be lower. 2011 fiscal balance and 2010 and 2011 debt ratio rounded at 1/2.

Source: “OECD Fiscal Consolidation Survey 2010”.

Greece

1. Economic situation

The Greek economy is in a recession in the wake of the economic and sovereign debt crisis, exacerbated by the impact that austerity measures are having on private consumption and investment (Figure 1A). Consistent budget deficits over the past decade culminated in an unprecedented budget deficit of 15.4% of GDP in 2009 (Figure 1B) and the public gross debt level to more than 127% of GDP in 2009 (Figure 1C).

To avoid sovereign debt default, Greece has taken a strict fiscal consolidation and structural reform path in an effort to stabilise the rapid increase in government debt in line with an agreement with the European Commission (EC), the European Central Bank (ECB) and the IMF. The government expected economic activity to contract by 4.2% in 2010 and a further 3% in 2011. As the impact of structural reform unfolds and external demand strengthens, economic growth is projected to turn positive in 2012.

Figure 1. **Key economic indicators**

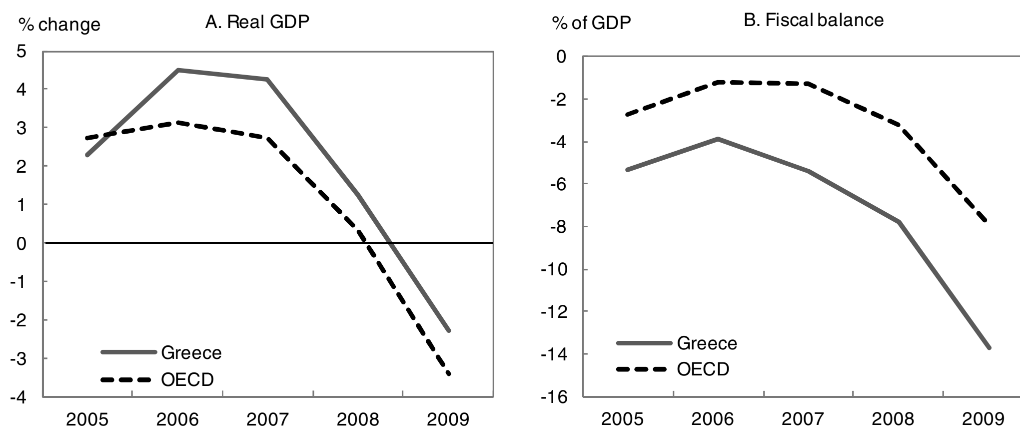
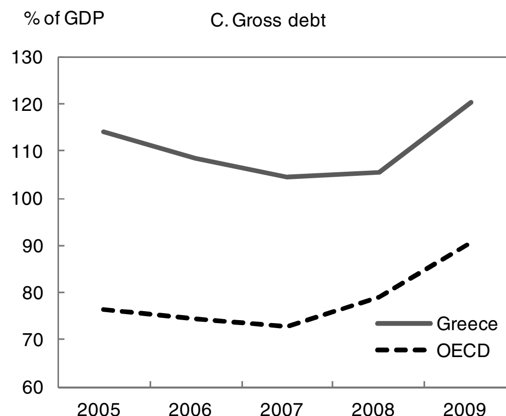


Figure 1. **Key economic indicators** *(cont'd)*



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Sources: OECD (2010), "OECD Economic Outlook No. 88", *OECD Economic Outlook: Statistics and Projections* (database), http://dx.doi.org/10.1787/data-00533-en; Eurostat, November 2010.

2. The government's fiscal consolidation strategy

Greece continues to implement its Economic Policy Programme with support from the EC, ECB and IMF. Greece aims to cut its budget deficit to below 3% of GDP by 2014, increase competitiveness and growth through sweeping structural reforms that will help the country to return to positive growth rates by the end of 2011, and safeguard the stability of the financial sector. The focus of the fiscal consolidation programme is on strict expenditure control and improvements in tax compliance with the aim of stabilising the level of public debt.

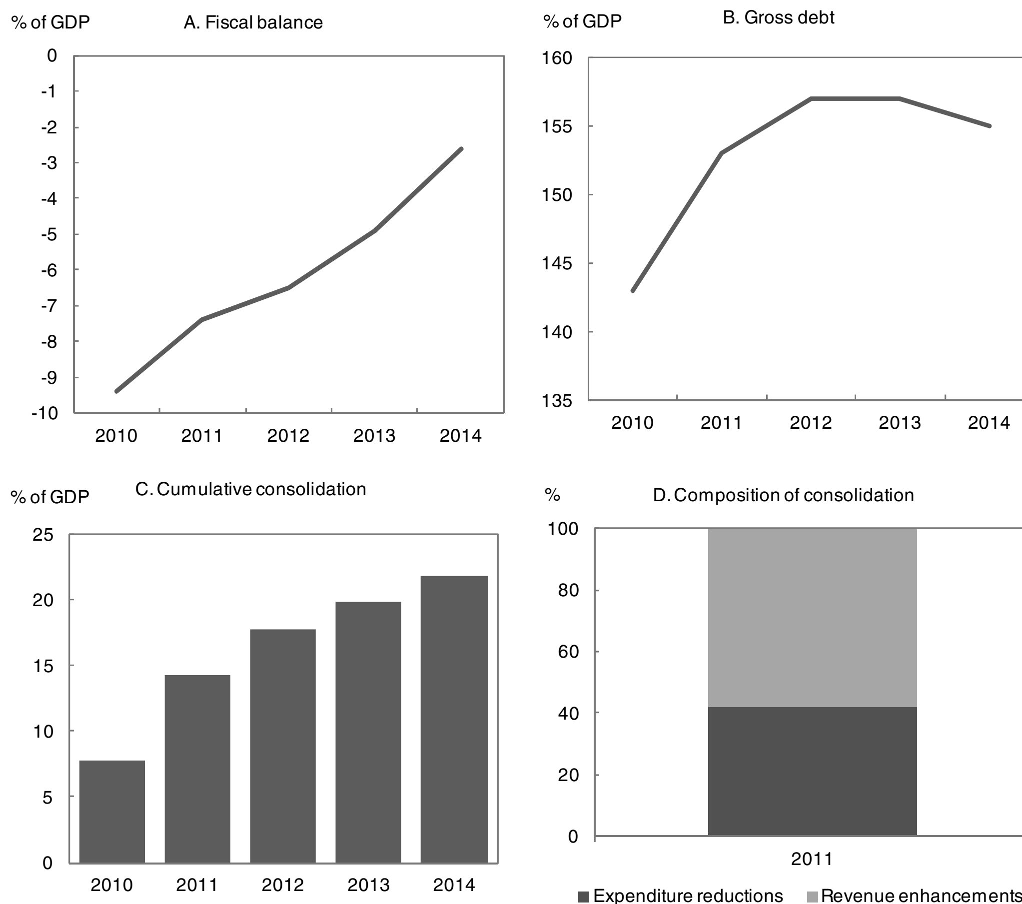
The scale of fiscal consolidation in 2010 was very large, with a reduction of the general government deficit reaching about 6% of GDP to 9.4% of GDP in 2010. This adjustment was larger than the 5.5% of GDP adjustment which was initially projected, despite the negative impact of the recession on the budget. Nevertheless, the 2010 budget deficit exceeded the Economic Policy Programme target of 8.1% of GDP because of an upward revision of the 2009 deficit by Eurostat in November 2010 (the deficit revision was mainly due to the reclassification of public corporations into general government and an adjustment of accounts of social security funds and local government). In 2010, primary expenditure control was better than envisaged, while revenues remained relatively subdued despite specific measures to reduce tax evasion and raise indirect taxes.

In December 2010, the Greek Parliament adopted the 2011 budget, which fully offsets the impact of fiscal data revisions and achieves the original target of 7.5% of GDP set in the Economic Policy Programme. In contrast to 2010, in 2011 revenue increases are expected to contribute more than expenditure measures to reduce the fiscal deficit (Figure 2D). As in 2010, the size of the required fiscal adjustment in 2011 is substantially larger than the expected cut of the actual deficit because of the increase in interest payments, the impact of the recession on tax revenues and social spending and other more structural factors causing an underlying deficit drift. To reduce the budget deficit by 2% of GDP in 2011, the total amount of measures announced reaches 6.5% of GDP in the current budget.

To support fiscal consolidation efforts, the Greek government passed the Fiscal Management Law in July 2010 to overhaul the budget preparation, execution and monitoring process. The law includes expenditure ceilings and the creation of a Parliamentary Budget Office (see details in Section 4).

This fiscal consolidation process will continue over the 2012-14 period as indicated in the Economic Policy Programme. The programme sets a deficit target of 6.4% in 2012, 4.8% of GDP in 2013 and 2.6% of GDP in 2014 (Figure 2A). Preliminary estimates suggest that an additional fiscal adjustment amounting to 5% of GDP will be needed during 2012-14 to bring the deficit below 3% of GDP. While still sizeable, this adjustment will be much smaller than the one achieved over the two years to 2011. A "cold shower" approach is followed with a substantial and immediate consolidation effort of around 7.8% of GDP in 2010, an additional effort of 6.5% of GDP in 2011 (including carryovers), totalling more than 20% of GDP between 2010 and 2014 (Figure 2C). Despite this large fiscal adjustment effort, gross debt is expected to peak in 2013, reaching close to 155% of GDP in 2014 (Figure 2B).

Figure 2. **The government's planned fiscal adjustments**



Notes: Fiscal balance and gross debt are general government financial balance and gross financial liabilities on a Maastricht basis as a per cent of nominal GDP. Fiscal consolidation is cumulative consolidation as a per cent of GDP. The composition of the contribution to fiscal consolidation is expenditure reductions and revenue enhancements (total = 100%). OECD calculations.

Sources: "OECD Fiscal Consolidation Survey 2010", Greek Ministry of Finance (adjusted for Eurostat revisions November 2010).

3. Major consolidation measures

Greece continues to implement a wide range of measures to consolidate public finances. Operational measures amount to around 1% of GDP and programme measures around 1.8% of GDP in 2011. On the revenue side, VAT hikes and measures to counter tax evasion contribute substantially.

Table 1. **Major consolidation measures**

Millions EUR (% of GDP[1])

		2011
Expenditures		**6 500 (2.81)**
1. Operational measures		2 450 (1.06)
Carryover of 2010 measures		
– Wages and pensions	General government wage and allowance cuts.	500 (0.22)
	Income policy for pensioners (reduction of 13th and 14th pension).	500 (0.22)
	Reduction of high pensions.	150 (0.06)
Measures included in Economic Policy Programme		
– Staffing	Replace only 20% of retiring employees.	
– Public consumption	Reduce intermediate government consumption.	300 (0.13)
– Public administration reform	Reform and reorganisation of local government by reducing the number of local administrations, entities, and elected and appointed officials. Limiting borrowing, reduce transfers, and control local government budgets.	500 (0.22)
– Pensions	Freeze in indexation of pensions.	100 (0.04)
– SPA	Savings from the establishment of a Single Payment Authority.	100 (0.04)
New measures in 2011		
– Operating expenses	Further reduction in transfers and operating expenses by 5%.	200 (0.09)
– Staffing	Reductions in short-term public employment contracts.	100 (0.04)
2. Programme measures		4 050 (1.75)
Measures included in Economic Policy Programme		
– Investments	Reduce domestically financed investments.	500 (0.22)
New measures in 2011		
– Pharmaceutical	Reduce expenses.	2 100 (0.91)
– State-owned enterprises	Strengthen performance of loss-making public enterprises in order to reduce contingent risk to the budget and increasing tariffs in public transportations.	800 (0.35)
– Family policies	Means-tested family benefits.	150 (0.06)
– Defence	Reduction in military expenditures (deliveries).	500 (0.22)

Table 1. **Major consolidation measures** *(cont'd)*

Millions EUR (% of GDP[1])

		2011
Revenues		**7 830 (3.38)**
Carryover of 2010 measures		
– Excise taxes	Increase in fuel excise tax.	250 (0.11)
	Increase in cigarettes excise tax.	250 (0.11)
	Increase in excise alcohol and luxury goods tax.	100 (0.04)
– VAT	Increase in VAT rate.	750 (0.32)
– Property	Incentive to regularise land-use violations.	150 (0.06)
Measures included in Economic Policy Programme		
– VAT	Replacement of the move of 30% of goods and services from 11% to 23% VAT rate.	1 050 (0.45)
– New tax framework for firms	Special levy on profitable firms.	680 (0.29)
– Income tax	New income tax framework.	900 (0.39)
– Gaming	Revenues from the new framework for gaming.	700 (0.30)
– Special tax	Special tax on unauthorised establishments.	300 (0.13)
– Real estate	Increase in real estate legal values.	270 (0.12)
– Green taxes	Green taxes increase.	150 (0.06)
New measures in 2011		
– Tax evasion	Measures against tax and social contributions evasion.	1 590 (0.69)
– State assets	Renewal of telecommunication licenses and sales of frequencies.	350 (0.15)
	Extension of the Athens airport concession contract.	250 (0.11)
	Revenues from guarantees.	90 (0.04)

1. OECD calculations using OECD forecasts of nominal GDP for 2011.

Sources: "OECD Fiscal Consolidation Survey 2010"; Greek Ministry of Finance.

Pension reform

The statutory retirement age for women has increased from 60 to 65 years (in line with men). The minimum retirement age of 60 will be set for all workers by 2015; will require 40 years of contributions to receive full benefits (up from 37); and will reduce benefits by 6% per year for those who claim retirement before age 65 without 40 years of contributions. Pensions will be cut to reflect a pensioner's average pay over their entire working life rather than his or her final five or ten years' salary. The pension reform is

far-reaching and covers a number of other key reform elements including consolidation, indexation, simplification, compliance and monitoring.

4. Institutional reforms

The Fiscal Management Law was passed in July 2010, and overhauls budget preparation, execution and monitoring procedures to support the fiscal consolidation strategy and to enshrine fiscal discipline at the general government level. The new law introduces an annual rolling three-year fiscal and budgetary strategy; top-down budgeting with medium-term expenditure ceilings for the state budget; commitment controls for these ceilings; requirement for supplementary budget for any overspending; and strengthens accountability and transparency including by creating a Parliamentary Budget Office. Importantly, the law extends reporting commitments to all local governments, social security funds and other entities. The law also includes principles to support fiscal consolidation after the current three-year programme, thus setting out the basic elements for establishing a fiscal rule.

Table 2. **The government's fiscal consolidation plan**

% of GDP

Fiscal consolidation	2010	2011	2012	2013	2014
Consolidation volume (cumulative)	7.8%	14.3%	17.8%	19.9%	21.8%
Total deficit(-)/ surplus(+)	-9.4%	-7.4%	-6.5%	-4.9%	-2.6%
Underlying primary balance deficit[1]	-0.4%	2.9%	3.5%	4.3%	5.6%
Total level of debt	143%	153%	157%	157%	155%
Fiscal consolidation by expenditure reduction and revenue enhancement (total = 100%)					
Expenditure reductions	66%	45%			
Revenue enhancements	34%	55%			

1. The underlying primary balance is derived from the government's targeted deficit path, taking into account the baseline assumptions of EO88. The cumulative consolidation figures which are estimated on the basis on information provided by the national authorities, the EC and IMF are higher in the case of Greece than those estimated by the cumulative improvement in the underlying primary deficit. In addition to the negative effect induced on the deficit by the normal cyclical effect and the rise in interest payments, a deficit drift is expected in the case of Greece in absence of fiscal corrective measures. The causes of this deficit drift include: *i)* the sharper contraction of tax bases for many of the revenue items compared with nominal GDP, i.e. consumption, operating profits as well as the wage bill; this implies that in the current downturn the cyclical increase of the fiscal balance is estimated to be significantly larger than implied by the usual OECD method; *ii)* age-pension spending pressures are also driving up the pension bill, partly because of the significant increase in early retirements before the adoption of the recent pension reform.

Sources: "OECD Fiscal Consolidation Survey 2010"; OECD calculations.

Hungary

1. Economic situation

Hungary has faced considerable challenges to regain fiscal credibility. After almost a decade of persistent, high fiscal deficits and the building up of external imbalances, the financial turmoil in late 2008 forced Hungary to request financial help from the IMF and the EU (Figure 1B).

Real GDP plunged in 2008 and 2009 (Figure 1A), but economic growth resumed in 2010 fuelled by robust external demand. The authorities expected GDP to grow 1.6% in 2010, further picking up to 3.0% in 2011 and 3.5% and in 2012. However, declining revenues and debt burdens still weigh on public finances (Figure 1C).

Figure 1. **Key economic indicators**

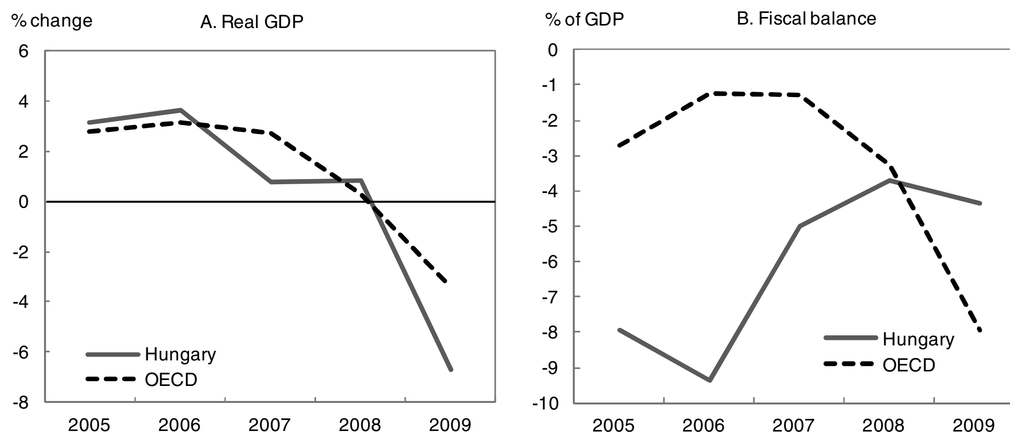
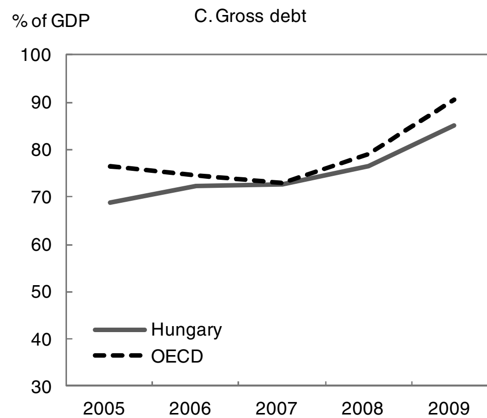


Figure 1. **Key economic indicators** *(cont'd)*



Note: Fiscal balance and gross debt are general government financial balance and gross financial liabilities as a per cent of nominal GDP.

Source: OECD (2010), "OECD Economic Outlook No. 88", *OECD Economic Outlook: Statistics and Projections* (database), http://dx.doi.org/10.1787/data-00533-en.

2. The government's fiscal strategy

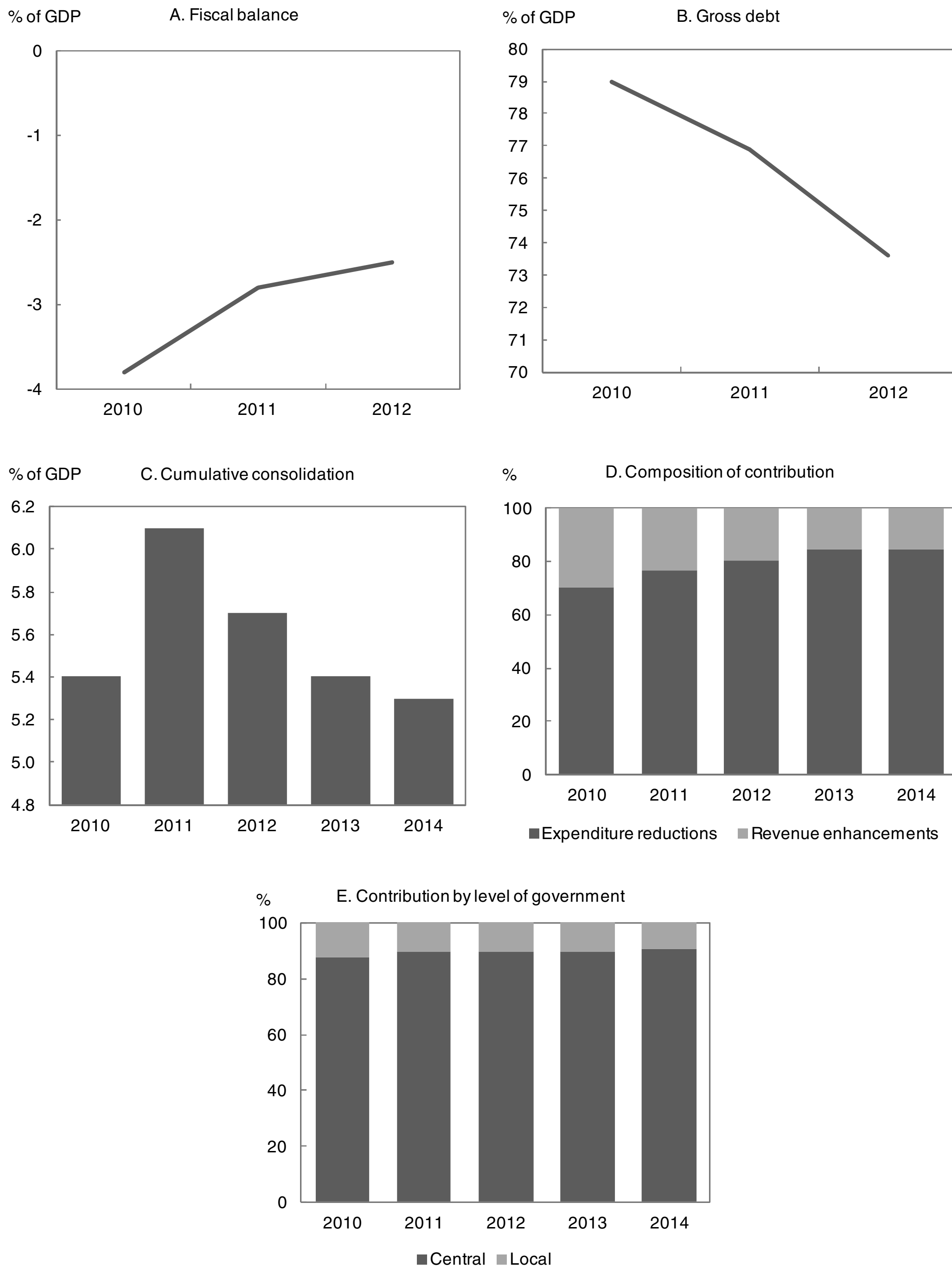
The economic crisis forced Hungary to adopt an early and front-loaded consolidation. The great majority of planned consolidation measures over the medium term was therefore either decided or already adopted in 2009. A fiscal deficit of 3.8 % of GDP was foreseen in 2010 by the authorities. Hungary is committed to reduce the deficit to 3% of GDP in 2011. The new government, which took office in June 2010, has let the IMF/EU-led support programme lapse.

Key features of the consolidation plan are rescheduling the tax burden from labour to consumption in 2010, notably by a significant cut in personal income tax rates from 2011. In order to achieve a deficit target below 3% in 2011 and lower future debt ratios, the government has introduced levies on financial institutions and adopted temporary sector taxes, the nationalisation of private pension contributions into the budget and reformed the pension scheme to lead more employees into the state pension pillar. In addition, a significant simplification of the taxation system itself is envisaged. In 2011, the central government institutions' wage bill and operational expenditures will be decreased again by HUF 70 billion.

The government cuts taxes for growth promotion. It especially focused on small and medium-sized enterprises (SME) which are considered to be the source of job creation. The guarantee and interest rate subsidies for SMEs have been broadened significantly. Another main direction is to lower the number of taxes (those that bring a relatively small amount of revenues at high operational costs).

Over the medium term through 2014, continued consolidation peaking at 6% of GDP in 2011, decreasing to 5.3% of GDP in 2014 is envisaged, most of which will be based on expenditure reductions (Figure 2C and 2D). The consolidation plan gradually improves the fiscal balances and is set to put the debt to GDP ratio on a downward path (Figure 2A and 2B). The central government budget will stand for the bulk of the consolidation over the five-year period, with a contribution of almost 90% (Figure 2E).

Figure 2. **The government's planned fiscal adjustments**



Notes: Fiscal balance and gross debt are general government financial balance and gross financial liabilities on a Maastricht basis as a per cent of nominal GDP. Fiscal consolidation is cumulative consolidation as a per cent of GDP. The composition of the contribution to fiscal consolidation is expenditure reductions and revenue enhancements (total = 100%). OECD calculations.

Source: "OECD Fiscal Consolidation Survey 2010".

3. Major fiscal consolidation measures

The government has presented a detailed consolidation programme for 2010-14. In the first part of the period, structural reforms will have a greater weight in the expenditure reduction package underlying the budget. Operational measures are substantial (1.3% of GDP in 2010), e.g. the freezing of public wages and reducing public consumption, but programme measures contribute more over the period, in particular the decision to *de facto* nationalise the mandatory private pension pillar leading to additional revenues for the state pillar (around 1.4% of GDP in 2014). On the revenue side, the VAT increase (1.4% of GDP in 2011) contributes significantly as does a new banking tax (0.7% of GDP per year in 2010 and 2011) and temporary taxes on energy, telecoms and commercial chain companies in 2010 and 2011 (0.6% of GDP per year in 2010 and 2011).

Table 1. **Major consolidation measures**[1]

Billions HUF (% of GDP[2])

		2010	2011	2012	2013	2014
Expenditure		**(4.06)**	**(5.19)**	**(5.08)**	**(5.31)**	**(5.40)**
1. Operational measures		339.5 (1.27)	324.7 (1.16)	324.7 (1.09)	324.7 (1.04)	324.7 (1.00)
– Public consumption	Freezing ministries' budgets.	60.0 (0.22)	60.0 (0.21)	60.0 (0.20)	60.0 (0.19)	60.0 (0.19)
– Wages	Improving Labour Market Fund balance.	23.0 (0.09)	23.0 (0.08)	23.0 (0.08)	23.0 (0.07)	23.0 (0.07)
	Freezing gross wage bill and reducing earning compensation in the public sector.	129.0 (0.48)	129.0 (0.46)	129.0 (0.43)	129.0 (0.41)	129.0 (0.40)
	Stopping all bonuses, review of contracts and procurements and abolishing bonuses and wage compensations for low earners.	19.0 (0.07)	72.2 (0.26)	72.2 (0.24)	72.2 (0.23)	72.2 (0.22)
– Public consumption	Freezing budgets, carryover withdrawal, asset management and budgetary savings.	108.5 (0.41)	40.5 (0.14)	40.5 (0.14)	40.5 (0.13)	40.5 (0.13)
2. Programme measures		747 (2.79)	1 127 (4.03)	1 187 (3.99)	1 331 (4.27)	1 425 (4.40)
– Housing	Elimination of housing subsidy.	52.0 (0.19)	70.0 (0.25)	81.4 (0.27)	98.2 (0.31)	106.9 (0.33)
– Agriculture	Reduction of farm subsidies.	37.0 (0.14)	37.0 (0.13)	37.0 (0.12)	37.0 (0.12)	37.0 (0.11)
– Energy	Reduction of natural gas and heating benefits.	40.0 (0.15)	40.0 (0.14)	40.0 (0.13)	40.0 (0.13)	40.0 (0.12)
	Elimination of natural gas and distance heating compensation in 2010.	19.0 (0.07)	25.0 (0.09)	25.0 (0.08)	25.0 (0.08)	25.0 (0.08)
– Health care	Reduction of healthcare expenditure.	30.0 (0.11)	30.0 (0.11)	30.0 (0.10)	30.0 (0.10)	30.0 (0.09)
	Decrease in sick pay by 10 percentage points.	16.0 (0.06)	17.0 (0.06)	18.1 (0.06)	19.7 (0.06)	21.4 (0.07)
– Pensions	Cancellation of 2010 pension correction.	40.0 (0.15)	41.0 (0.15)	42.3 (0.14)	43.8 (0.14)	45.4 (0.14)
	Change in pension indexation system.	76.0 (0.28)	91.0 (0.33)	99.9 (0.39)	171.6 (0.55)	209.6 (0.65)
	Elimination of 13th pension.	170.0 (0.64)	175.0 (0.63)	180.8 (0.61)	186.9 (0.60)	193.6 (0.60)
	Tightening disability pension, freezing pension minimum, early retirement changes.	34.0 (0.13)	51.0 (0.18)	51.3 (0.17)	51.6 (0.17)	52.0 (0.16)
	Private pension pillar into the state.	62.1 (0.23)	360.0 (1.29)	384.2 (1.29)	417.0 (1.34)	452.9 (1.40)

Table 1. **Major consolidation measures**[1] *(cont'd)*

Billions HUF (% of GDP[2])

		2010	2011	2012	2013	2014
– Child and family benefits	Child-care fee, maternity aid from 3 months to 2 years of age and family allowance from 23 months to 20 years of age.	3.0 (0.01)	12.0 (0.04)	18.6 (0.06)	32.0 (0.10)	33.0 (0.10)
	Elimination/freezing family allowance.	29.0 (0.11)	32.0 (0.11)	32.0 (0.11)	32.0 (0.10)	32.0 (0.10)
– Transport	Reduction of subsidy to MÁV Start.	17.6 (0.07)	17.6 (0.06)	17.6 (0.06)	17.6 (0.06)	17.6 (0.05)
– Local government	Reduction of local government subsidies and representatives in local governments.	121.4 (0.45)	128.4 (0.46)	128.4 (0.43)	128.4 (0.41)	128.4 (0.40)
Revenues		**1 171 (4.38)**	**1 229 (4.40**	**1 202 (4.04)**	**1 203 (3.86)**	**1 290 (3.98)**
– Health	Health care contribution increases from 11% to 27%.	18.0 (0.07)	18.8 (0.07)	20.1 (0.07)	21.8 (0.07)	23.7 (0.07)
	Increase of rehabilitation contribution (five times higher).	35.0 (0.13)	36.6 (0.13)	39.1 (0.13)	42.4 (0.14)	46.0 (0.14)
– Personal income	Some tax-free benefits become taxable.	110.0 (0.41)	115.0 (0.41)	122.8 (0.41)	133.2 (0.43)	144.7 (0.45)
– Capital taxes	Broadening the corporate income tax base.	65.0 (0.24)	69.2 (0.25)	74.5 (0.25)	80.7 (0.26)	87.5 (0.27)
	Eliminating tax reduction on intra-group interest difference.	25.0 (0.09)	26.6 (0.10)	28.7 (0.10)	31.0 (0.10)	33.7 (0.10)
	Increasing the corporate income tax rate to 19%, from 2010.	97.0 (0.36)	103.2 (0.37)	111.2 (0.37)	120.4 (0.39)	130.6 (0.40)
	Increasing the tax rate of the simplified business tax from 25% to 30%.	18.0 (0.07)	19.2 (0.07)	20.6 (0.07)	22.3 (0.07)	24.2 (0.07)
	Banking tax.	187.0 (0.70)	187.0 (0.67)	93.5 (0.31)	93.5 (0.30)	93.5 (0.29)
	Energy company income tax.	70.0 (0.26)	70.0 (0.25)			
	Telecom company income tax.	61.0 (0.23)	61.0 (0.22)	166.0 (0.56)	85.5 (0.27)	86.5 (0.27)
	Commercial chain income tax.	30.0 (0.11)	30.0 (0.11)			
– VAT	As from 1 July 2009, the general VAT rate increased by 5 percentage points.	358.0 (1.34)	385.7 (1.38)	411.3 (1.38)	447.6 (1.44)	484.7 (1.50)
	Excises increased from 1 July 2009.	40.0 (0.15)	43.1 (0.15)	46.0 (0.15)	50.0 (0.16)	54.2 (0.17)
	Excises increased from 1 January 2010.	48.0 (0.18)	51.7 (0.18)	55.1 (0.19)	60.0 (0.19)	65.0 (0.20)
– Wealth	Tax on wealth.	1.7 (0.01)	3.5 (0.01)	3.8 (0.01)	4.1 (0.01)	4.4 (0.01)
	Increase of the taxes on cars.	8.0 (0.03)	8.6 (0.03)	9.2 (0.03)	10.0 (0.03)	10.8 (0.03)

1. Tax reliefs and new spending items are not included.
2. OECD calculations using OECD forecasts of nominal GDP for 2010-15.

Source: "OECD Fiscal Consolidation Survey 2010".

Pension reform

According to the authorities, long-term sustainability has been improved by recent pension reforms. However a new measure will be adopted to lower the retirement age for women who have at least 40 years of working experience. Other pension measures are described in Section 2 and 3.

4. Institutional reforms

Hungary has introduced a Fiscal Responsibility Law, which sets a new fiscal rule for the central government and establishes a new independent fiscal institution (the Fiscal Council) to assess the government's fiscal policies. The new fiscal rule entered into force in January 2010. From 2011, the Fiscal Council, as set up in the Fiscal Responsibility Law and assisted by a technical staff of about 40, is closed and replaced by a new council with three members. The new Fiscal Council may recommend that the President of the republic refers the law establishing the budget of the republic of Hungary to the parliament for reconsideration.

The Fiscal Responsibility Law introduces the so-called real debt rule, which requires that the medium-term budget balance must be specified for two years in advance ensuring the real value of government debt does not increase. It entails a simplification of the former classification of some general government sub-sectors. From 2010 onwards, social security funds and other extra-budgetary funds are presented in aggregate together with the central government budget. The new budgetary structure differentiates between mandatory and discretionary expenditure.

Table 2. **The government's fiscal consolidation plan**

% of GDP

Fiscal consolidation	2010	2011	2012	2013	2014
Consolidation volume (cumulative)	5.4%	6.1%	5.7%	5.4%	5.3%
Total deficit(-)/ surplus(+)	-3.8%	-2.8%	-2.5%		
Total level of debt	79.0%	76.9%	73.6%		
Fiscal consolidation by expenditure reductions and revenue enhancements (total = 100%)					
Expenditure reductions	70.4%	76.8%	80.0%	84.3%	84.4%
Revenue enhancements	29.6%	23.2%	20.0%	15.7%	15.6%
Contribution to fiscal consolidation by levels of government (total = 100%)					
Central	87.8%	89.5%	89.5%	89.9%	90.5%
Regional					
Local	12.2%	10.5%	10.5%	10.1%	9.5%

Source: "OECD Fiscal Consolidation Survey 2010".

Ireland

1. Economic situation

Ireland's economy is undergoing a number of significant adjustments following the 14% of GDP peak-to-trough contraction experienced from Q4 2007 to Q4 2009. Major imbalances continue to unwind in the banking and property sectors, contributing to the significant deterioration of public finances. Indeed, on some measures housing prices have fallen by more than 30% from their peaks, and the unemployment rate has risen to a 16-year high of 13.3%.

Ireland had run consistent budget surpluses in the years prior to 2007, but the fiscal balance rapidly deteriorated to a deficit of 14.2% of GDP in 2009 (Figure 1B), and the government estimates it to widen to 31.9% of GDP in 2010 (including the costs of bank support measures in both years). The gross debt has grown significantly from 28.9% of GDP in 2007 to more than 70% in 2009 (Figure 1C).

In November 2010, the government announced that a financial support package had been agreed with the European Commission, the European Central Bank and the IMF. In the medium term, the OECD is projecting a mild export-led recovery, offset by sluggish domestic demand.

Figure 1. **Key economic indicators**

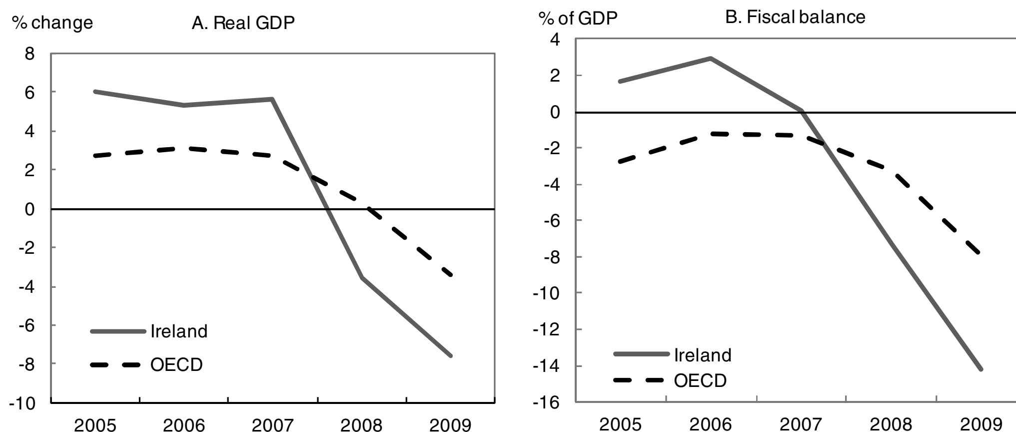
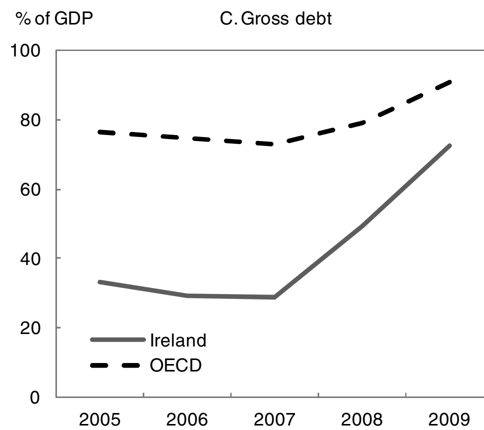


Figure 1. **Key economic indicators** *(cont'd)*



Note: Fiscal balance and gross debt are general government financial balance and gross financial liabilities as a per cent of nominal GDP.

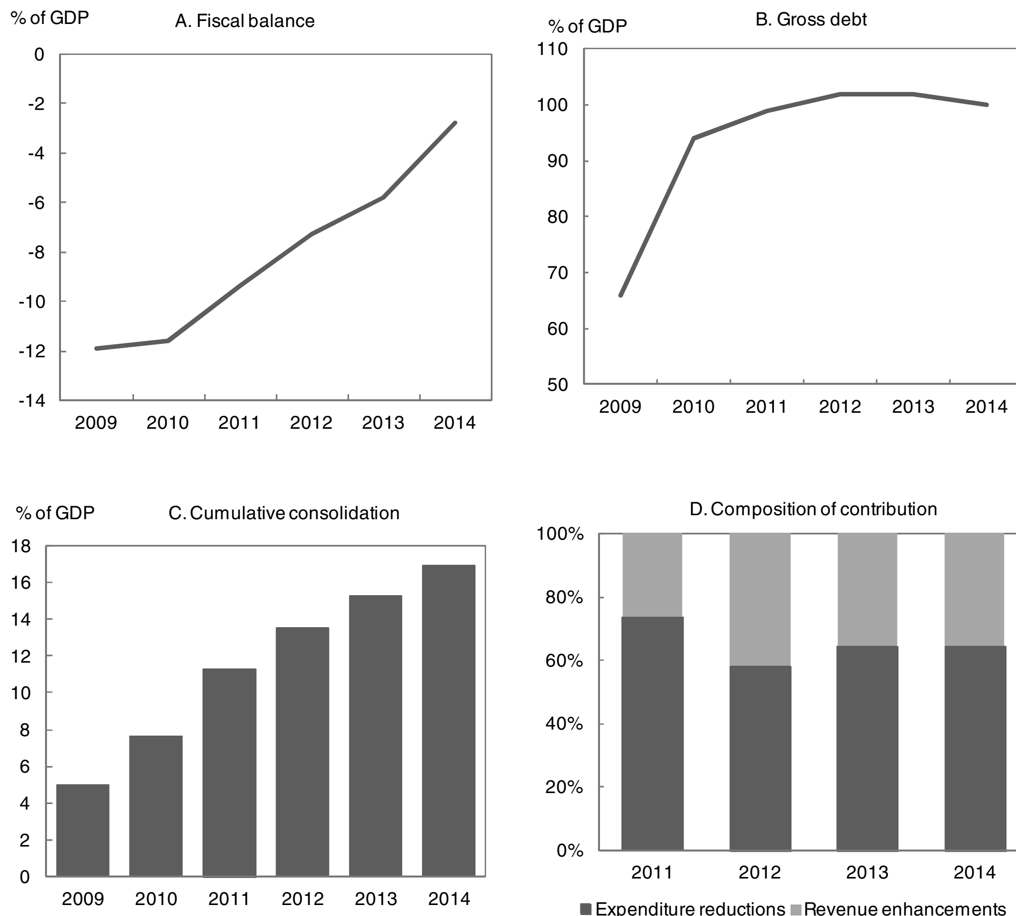
Source: OECD (2010), "OECD Economic Outlook No. 88", *OECD Economic Outlook: Statistics and Projections* (database), http://dx.doi.org/10.1787/data-00533-en.

2. The government's fiscal consolidation strategy

The key objectives of Ireland's medium term fiscal strategy are to support economic growth through competitiveness, contain the increase in government debt, and restore expenditure and taxation at more sustainable levels. Ireland is targeting a reduction in its deficit to below 3% of GDP by 2014 (Figure 2A). With the release of budget 2011 in December 2010, the government projects that the gross debt will peak at 102.5% of GDP (Figure 2B).

The Irish government began announcing its multi-year fiscal consolidation plans as early as 2008, with the 2011 budget marking the sixth consolidation initiative in two and a half years. The focus of consolidation efforts in 2009-10 was mainly on permanent expenditure cuts (just under two-thirds) aimed at reducing the structural deficit with the remainder of the adjustment comprised of revenue enhancement measures. Similar proportions will continue to apply to the adjustments planned for the next four years. Ireland's cumulative consolidation effort from 2009-14 measures approximately 16.9% of GDP (Figure 2C). A discretionary fiscal adjustment measuring 5% of GDP was implemented in 2009, followed by 2.6% of GDP in 2010. In its four-year National Recovery Plan released in November 2010, the Irish government announced an additional EUR 15 billion (9.4% of GDP) in consolidation measures for implementation over the period 2011-14. The latest consolidation package has been significantly front-loaded with savings of EUR 6 billion (3.7% of GDP) planned for the 2011 budget alone. The consolidation plan is weighted two-thirds (EUR 10 billion) towards spending cuts, and one-third (EUR 5 billion) in revenue enhancements to be implemented over the four-year period (Figure 2D).

Figure 2. **The government's planned fiscal adjustments**



Notes: Fiscal balance and gross debt are general government financial balance and gross financial liabilities on a Maastricht basis as a per cent of nominal GDP. Fiscal consolidation is cumulative consolidation as a per cent of GDP. The composition of the contribution to fiscal consolidation is expenditure reductions and revenue enhancements (total = 100%). OECD calculations.

Source: "OECD Fiscal Consolidation Survey 2010".

3. Major consolidation measures

Ireland has announced significant expenditure reductions over the past two years. The initial focus of the consolidation effort was on reducing public service administration and wages, but a deteriorating fiscal position has seen the need for more wide-ranging reductions across departmental spending. In particular, the capital budget will contribute EUR 3 billion (1.9% of GDP) to the 2011-14 consolidation effort. Over the same period, reducing unemployment and welfare benefits will bring savings of EUR 2.8 billion (1.75% of GDP).

To strengthen the income tax base, the minimum income tax threshold will fall from EUR 18 300 to EUR 15 300 by 2014, reducing the proportion of workers paying no tax from 45% to 35%. This will bring additional revenue of 1.2% of GDP. Furthermore, VAT will increase from 21% to 23% by 2014.

Table 1. **Major consolidation measures**

Billions EUR (% of GDP[1])

		Budgetary impact 2011-14
Expenditures		**10 (6.25)**
1. Operational measures		1.2 (0.75)
– Public service wage cuts and hiring	Public service wages (and benefits) were cut by an average of 13.5% over 2009-10. An additional EUR 1.2 billion is to be cut from the public service wage bill across 2011-14 (24 750 job cuts over peak 2008 levels).	1.2 (0.64)
2. Programme measures		8.8 (5.50)
– General departmental spending	Net government spending fell a cumulative 6.5% from 2008-10. An additional EUR 3 billion will need to be cut from departmental budgets across 2011-14.	1.6 (1.0)
– Unemployment and welfare benefits	Unemployment and welfare benefits were cut by around 10% in 2009-10. A further EUR 2.8 billion is to be cut from 2011-14 budgets.	2.8 (1.75)
– Child benefits	Child benefits have been reduced in budget 2011 by EUR 10 per month for the first and second child and EUR 20 per month for the third child accounting for annual savings of EUR 149 million.	n.a.
– Health	Cuts of about EUR 750 million for health care in budget 2011.	1.4 (0.87)
– Capital spending	The capital budget will contribute EUR 3 billion to the 2011-14 cuts.	3.0 (1.87)
3. Other initiatives	Ireland's national minimum wage is to be cut by 12% to EUR 7.65 in 2011.	n.a.
Revenues		**5.1 (3.18)**
– Carbon tax	A carbon tax on fossil fuels (petrol, diesel, gas, coal, and peat) equivalent to EUR 15 per tonne of emitted CO_2 was introduced at the 2010 budget (average price increase of 5%). Increased to EUR 30 per tonne in the National Recovery Plan.	0.3 (0.19)
– Income tax	The minimum income tax threshold will fall from EUR 18 300 to EUR 15 300 by 2014, reducing the proportion of workers paying no tax from 45% to 35%. Including the elimination of tax breaks, these initiatives provide EUR 1.9 billion in additional 2011-14 revenue.	1.9 (1.19)
– VAT	VAT will rise from 21% to 22% in 2013, and to 23% in 2014.	0.57 (0.36)
– Property tax	A site value tax on land and property owners will be implemented from 2012. In addition, a water charge for domestic users is planned for implementation by 2014.	0.53 (0.33)
– Pension-related tax	Pension-related tax changes yielding EUR 865 million (including EUR 240 million in savings on public service pension-related deduction).	0.87 (0.54)
– Tax expenditures	Abolish or curtail a range of tax expenditures.	0.67 (0.42)
– Other tax measures including capital taxes		0.26 (0.16)

1. OECD calculations using OECD forecasts of nominal GDP for 2014.

Source: "OECD Fiscal Consolidation Survey 2010".

Pension reform

A new single pension scheme for new entrants to the public service is being introduced in 2011. The main provisions of the new scheme are:

- raising the minimum pension age to 66 years initially to bring it into line and link it henceforth to the state pension age, which is to increase to 67 in 2021 and to 68 in 2028;
- a maximum retirement age of 70 years;
- pensions to be based on career average revalued earnings rather than final salary as currently applies;
- pension increases linked to inflation (CPI) rather than pay.

Table 2. **The government's fiscal consolidation plan**

% of GDP

Fiscal consolidation	2009	2010	2011	2012	2013	2014
Consolidation measures (cumulative)	5.0%	7.6%	11.3%	13.5%	15.3%	16.9%
Total deficit/surplus	-11.9%	-11.6%	-9.4%	-7.3%	-5.8%	-2.8%
including bank rescue	*-14.4%*	*-31.9%*				
Total level of debt	66%	94%	99%	102%	102%	100%
Fiscal consolidation by expenditure reductions and revenue enhancements (total = 100%)						
Expenditure reductions			73.6%	58.3%	64.5%	64.5%
Revenue enhancements			26.4%	41.7%	35.5%	35.5%

Source: "OECD Fiscal Consolidation Survey 2010".

Israel*

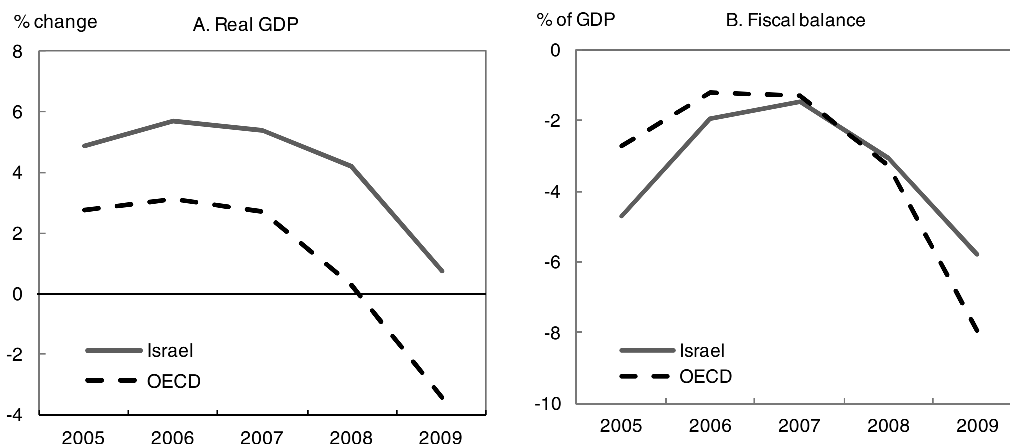
1. Economic situation

Israel's economic growth rate has been significantly better than the OECD average in recent years, with only two quarters of output contraction recorded during the economic crisis (Figure 1A).

Gross debt fell from 93.5% to 79.2% of GDP between 2005 and 2009, with the government adopting fiscal restraint during pre-crisis years. The reduction in gross debt compared favourably to the increase seen across a majority of OECD member countries, with the debt ratio falling below the OECD average in 2008 (Figure 1C).

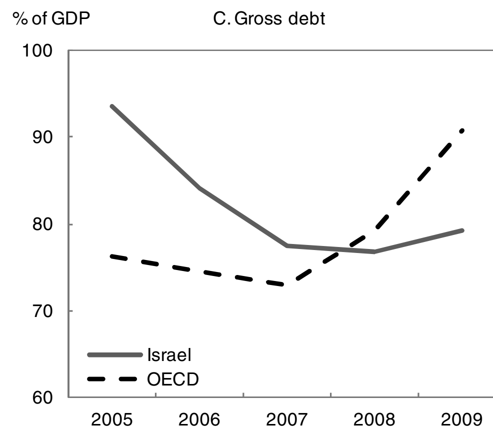
Israel's budget deficit deteriorated to 5.8% of GDP in 2009 with a concomitant rise in gross debt (Figure 1B). Recovery from the relatively mild downturn has already tightened the labour market, and the OECD projects economic growth to reach potential by 2012.

Figure 1. **Key economic indicators**



* The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Figure 1. **Key economic indicators** *(cont'd)*



Notes: Fiscal balance and gross debt are general government financial balance and gross financial liabilities as a per cent of nominal GDP.

Source: OECD (2010), "OECD Economic Outlook No. 88", *OECD Economic Outlook: Statistics and Projections* (database), http://dx.doi.org/10.1787/data-00533-en.

2. The government's fiscal consolidation strategy

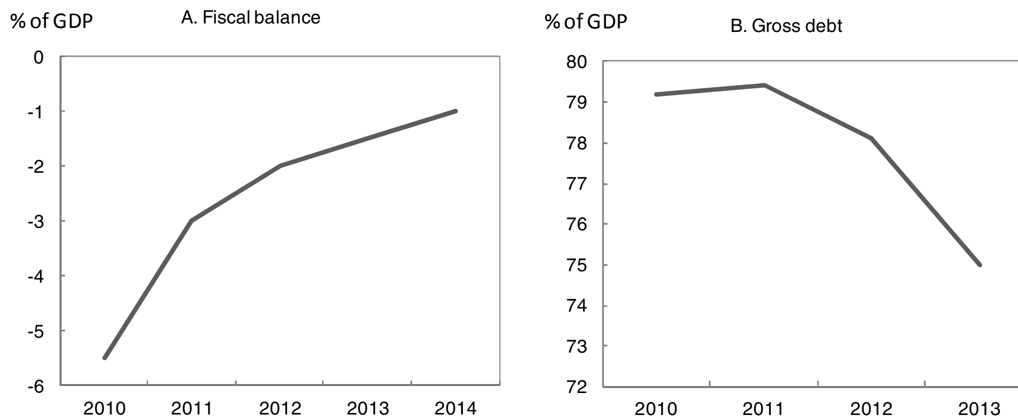
Israel introduced a range of guarantees to the financial markets, tax provisions and spending measures in response to the crisis. However, the fiscal cost of these measures has been modest; the *OECD Economic Surveys: Israel 2009* (OECD, 2009a) estimated the spending and tax measures at no more than 0.5% of GDP). This small stimulus package, combined with subsequent healthy recovery in GDP and tax revenues, accounts for the relatively small increase in the debt-to-GDP ratio. Hence there have been no significant fiscal stimuli to unwind, or a pressing need for exceptionally deep cuts in public spending.

Israel combines an expenditure-based fiscal rule with deficit targets. The rule defines a ceiling to real spending growth. Following a reform this is now calculated as average real GDP growth over the previous 10 years multiplied by the ratio of 60 divided by the debt-to-GDP ratio (in percentage). For 2011 and 2012 this implies real growth of 2.7% each year. The conversion to a figure for nominal expenditure growth combines projected CPI growth with an error-correction mechanism (for 2011 and 2012, the budgeted nominal spending increases are 5.9% and 5%, respectively). The deficit targets aim to bring the debt-to-GDP ratio below 60% by 2020 (the targets are 3% for 2011, 2% for 2012, 1.5% for 2013 and 1% 2014 onwards). Both the expenditure rule and deficit targets are based on a specific definition of the central government account.

The deficit outturn for 2010 is estimated at 3.7% (well below the target of 5.5%). The budget for 2011-12 aims to not only increase spending according to rule and hit the deficit targets but to also continue with a schedule of cuts in personal and corporate income-tax rates (these run to 2016). Accordingly, Israel has chosen to increase indirect taxes, most notably on retail gasoline and coal. In addition, the restoration of VAT to pre-crisis levels has been delayed (VAT was increased as a temporary measure from 15% to 16% but has since been reduced to 15.5%). The government expects the fiscal balance

to improve steadily from 2010 to 2012 (Figure 1A). The OECD projects gross debt to moderate towards 75% of GDP over the next few years (Figure 1B).

Figure 2. **The government's planned fiscal adjustments**



Note: Fiscal balance and gross debt are general government financial balance and gross financial liabilities as a per cent of nominal GDP.

Sources: "OECD Fiscal Consolidation Survey 2010"; deficit figures to 2012 based on Israel's June 2010 budget; debt figures based on projections from OECD (2010), "OECD Economic Outlook No. 88", *OECD Economic Outlook: Statistics and Projections* (database), http://dx.doi.org/10.1787/data-00533-en.

3. Major fiscal consolidation measures

Although the new spending rule allows slightly faster growth than before, it still implies further erosion in public spending as a share of GDP in an environment of already modest spending levels in many areas of the government account.

Table 1. **Major consolidation measures**

		Budgetary impact 2010-14
Expenditures		
1. Operational measures		
– Wages	Wage restraint in the public sector is helping contain costs. A 6.25% increase over three years (2010-12) has been agreed, which implies roughly zero real increase if inflation turns out close to the mid-point of the Bank of Israel's inflation target (1-3% increase in CPI).	n.a.
2. Programme measures		
– Defence	Limiting the increase in defence spending to that recommended by a special committee (the Brodet Committee).	n.a.
Revenues		
– VAT	In July 2009, VAT tax was temporarily increased from 15.5% to 16.5% until the end of 2010.	n.a.
– Excise taxes	Taxes on gasoline, coal and tobacco were raised by around 12% in 2010 with further hikes proposed for 2011.	n.a.

Source: "OECD Fiscal Consolidation Survey 2010".

4. Institutional reforms

Israel has revised the formula it uses for calculating its expenditure-based fiscal rule. In budgets up to and including 2010, the ceiling was set at 1.7% real growth (roughly equal to the rate of population growth). The revised rule (described above) will typically imply higher real spending growth.

In addition, Israel has adopted a full two-year budget cycle (i.e. the budget covers two years and the budget process is only conducted every two years). The first budget under this approach covered 2009-10 and the second is under way (covering 2011-12). Aside from one or two exceptional circumstances, no other OECD member country has ever adopted a two-year cycle in central-government budgeting.

Table 2. **The government's fiscal consolidation plan**

% of GDP

Fiscal consolidation	2010	2011	2012	2013	2014
Total deficit/surplus (target)	-5.5%	-3.0%	-2.0%	-1.5%	-1.0%
Total level of debt (OECD projection)	79.2%	79.4%	78.1%	75.0%	

Notes: Deficit figures to 2012 based on Israel's June 2010 budget; debt figures based on projections from OECD (2010), "OECD Economic Outlook No. 88", *OECD Economic Outlook: Statistics and Projections* (database), http://dx.doi.org/10.1787/data-00533-en.

Source: "OECD Fiscal Consolidation Survey 2010".

Italy

1. Economic situation

Along with the rest of the OECD, the Italian economy experienced a serious recession in the aftermath of the economic crisis. The economy declined by 5.1% in 2009, lower than the OECD average (Figure 1A). To counter the crisis, Italy introduced a number of fiscal stimulus packages but size of the stimulus packages was one of the smallest among OECD member countries due to the limited fiscal room for manoeuvre. Instead, the government focused on reallocating budget resources.

Despite the fact that the fiscal packages are small compared to the OECD average, Italy recorded a fiscal deficit of 5.2% of GDP (Figure 1B) and government debt increased to more than 120% of GDP in 2009 (Figure 1C).

The OECD projects that Italy's economy has begun to recover modestly from the strong decline in 2009 and this recovery will continue over the next two years.

Figure 1. **Key economic indicators**

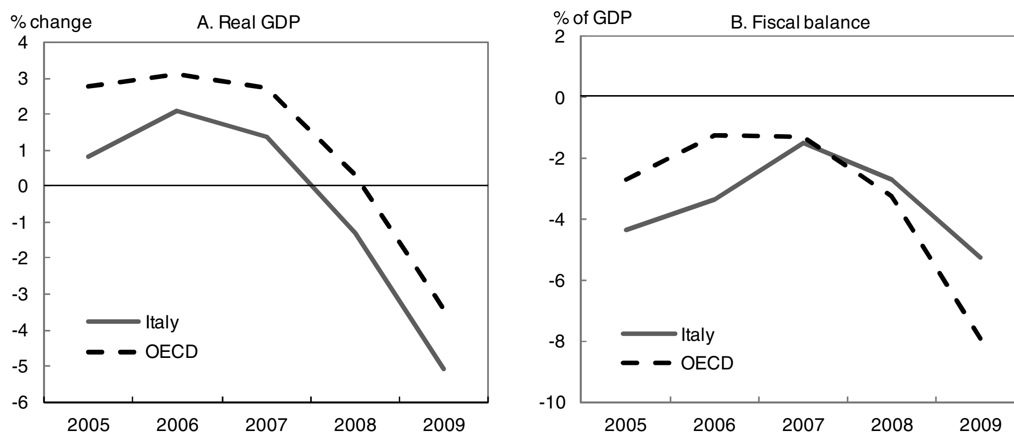
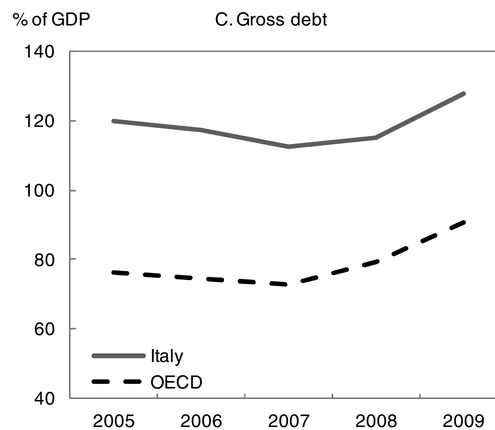


Figure 1. **Key economic indicators** *(cont'd)*



Notes: Fiscal balance and gross debt are general government financial balance and gross financial liabilities as a per cent of nominal GDP.

Source: OECD (2010), "OECD Economic Outlook No. 88", *OECD Economic Outlook: Statistics and Projections* (database), http://dx.doi.org/10.1787/data-00533-en.

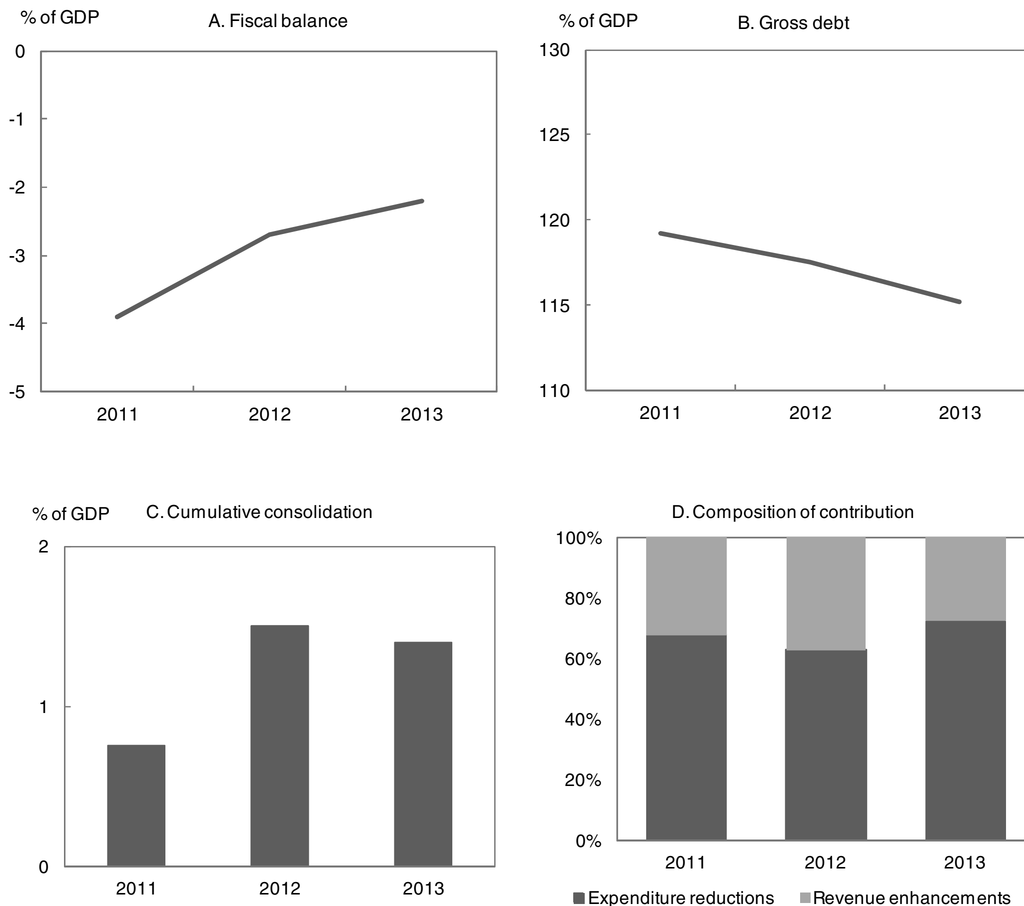
2. The government's fiscal consolidation strategy

The government aims to reduce the general government deficit to 2.7% of GDP by 2012[4] (Figure 2A). Over the next three years, temporary fiscal stimulus measures taken in response to the crisis will be phased out. About 60% of gross resource committed to boost the real economy was to expire by 2010 while remaining measures are mostly structural ones, tax incentives for companies and researchers, and some multi-year expenditure programmes.

The consolidation effort is somewhat front-loaded in that the consolidation volumes amount to 0.8% of GDP in 2011 and 0.7% in 2012, respectively (Figure 2C). The government focuses on expenditure reductions which account for more than 60% of total consolidation efforts (Figure 2D). The consolidation programme requires substantial contribution from the lower level of government to meet fiscal targets, since large amounts of state budget transfers to local governments will be reduced.

In September 2010, the government submitted the multi-annual fiscal planning to the parliament which confirmed the estimates of fiscal balance for 2010 and targets for 2011-13.

Figure 2. **The government's planned fiscal adjustments**



Notes: Fiscal balance and gross debt are general government financial balance and gross financial liabilities on a Maastricht basis as a per cent of nominal GDP. Fiscal consolidation is cumulative consolidation as a per cent of GDP. The composition of the contribution to fiscal consolidation is expenditure reductions and revenue enhancements (total = 100%). OECD calculations.

Source: "OECD Fiscal Consolidation Survey 2010".

3. Major consolidation measures

On the expenditure side, the government is focusing on controlling pension expenditures and state transfers to local governments. In particular, the reduction of state transfers to regions, provinces and municipalities will make up the largest measure amounting to almost 0.5 % of GDP in 2011-13. Over the same period, the government will also tighten operational costs by reducing public consumption for each ministry, reorganising government and freezing wages in the public sector. These measures will give contribute 0.36% of GDP.

On the revenue side, the government aims to restrict some tax expenditures including tax credit compensations for taxpayers with rolls, which will enhance revenue by more than 0.1% of GDP. Moreover, the government will reduce tax evasion by improving tax

collection systems. As for non-tax revenue measures, new road tolls from highways and renewal of highway concessions are under consideration.

Table 1. **Major consolidation measures**

Millions EUR (% of GDP[1])

		2011	2012	2013
Expenditures		**8 232 (0.52)**	**15 777 (0.97)**	**18 155 (1.08)**
1. Operational measures		3 065 (0.19)	4 688 (0.29)	6 034 (0.36)
– Staff expenditure	Wage cuts in the public sector.	1 583 (0.10)	2 514 (0.15)	2 926 (0.17)
	Reduction of recruitment and other personnel measures.	113 (0.01)	168 (0.01)	361 (0.02)
– State budget appropriations	Reduction of intermediate consumptions and reorganising government.	1 369 (0.09)	2 006 (0.12)	2 747 (0.16)
2. Programme measures		7 140 (0.45)	11 541 (0.71)	12 407 (0.74)
– Social expenditure	Reduction of expenses in disability and pharmaceutical.	1 050 (0.07)	980 (0.06)	800 (0.05)
– Pension expenditure	Extension of women retirement age, etc.	340 (0.02)	2 611 (0.16)	3 657 (0.22)
– Transfers to local governments	Reduction of transfers to regions, provinces and municipalities.	5 750 (0.36)	7 950 (0.49)	7 950 (0.47)
3. Other initiatives	Fund for structural economic policy initiatives, population census, etc.	-1 973 (-0.12)	-452 (-0.03)	-286 (-0.02)
Revenues		**4 048 (0.26)**	**4 376 (0.27)**	**3 449 (0.20)**
– Reduction of tax evasion	Alignments to European rules to fight tax evasion (VAT evasion in intra-European trade).	2 260 (0.14)	1 641 (0.10)	914 (0.05)
– Tax expenditure	Restrictions in tax credit compensations for taxpayers.	700 (0.04)	2 100 (0.13)	1 900 (0.11)
– Non-tax revenues	Extra fees from highway agents and renewal of highway concessions.	1 088 (0.07)	635 (0.04)	635 (0.04)

1. OECD calculations using OECD forecasts of nominal GDP for 2011-13.

Source: “OECD Fiscal Consolidation Survey 2010”.

4. Institutional reforms

The Italian government introduced a new Accounting and Public Finance Law which has been in effect since January 2010. The law focuses on harmonising accounting and budget systems of general government, strengthening the control and monitoring of expenditures, and enhancing the performance orientation of the budget. Moreover, its coverage has been broadened to all entities falling within the category of general government. Finally, in this new law, planning has a medium-term horizon, with a three-year planning period for policies, objectives and resources and a greater focus on the structural figures of the budget.

In December 2010, the parliament presented a draft bill concerning the revision of the Accounting and Public Finance Law. The proposal seeks to align the national fiscal framework, in terms of timing and content, to the “European Semester”.

Table 2. **The government's fiscal consolidation plan**

% of GDP

Fiscal consolidation	2011	2012	2013
Consolidation volume (cumulative)	0.8%	1.5%	1.4%
Total deficit(-)/ surplus(+)	-3.9%	-2.7%	-2.2%
Total level of debt	119.2%	117.5%	115.2%
Fiscal consolidation by expenditure reductions and revenue enhancements (total = 100%)			
Expenditure reductions	67.9%	62.9%	72.5%
Revenue enhancements	32.1%	37.1%	27.5%
Contribution to fiscal consolidation by level of governments (total = 100%)			
Central government	42.8%	59.8%	59.4%
Local governments	57.2%	40.2%	40.6%

Source: "OECD Fiscal Consolidation Survey 2010".

Japan

1. Economic situation

While the Japanese economy had grown more than 2% in 2006-07, it fell into deep recession after the economic crisis and GDP dropped by 5.2% in 2009 (Figure 1A). The progress Japan had made with fiscal consolidation efforts in 2002-07 was reversed as a series of fiscal stimulus packages were implemented in 2008-09 to counter the recession. The fiscal deficit deteriorated to 7.1% of GDP in 2009 (Figure 1B).

The large budget deficit is putting upward pressure on government debt, which is already the highest among OECD member countries (Figure 1C). As a result of the government introducing two fiscal stimulus packages in late 2010, using revenue windfalls and reserves to finance additional spending, rather than reduce government borrowing, makes it more challenging to achieve medium-term fiscal sustainability. The OECD expects that the economy will grow modestly through 2011-12.

Figure 1. **Key economic indicators**

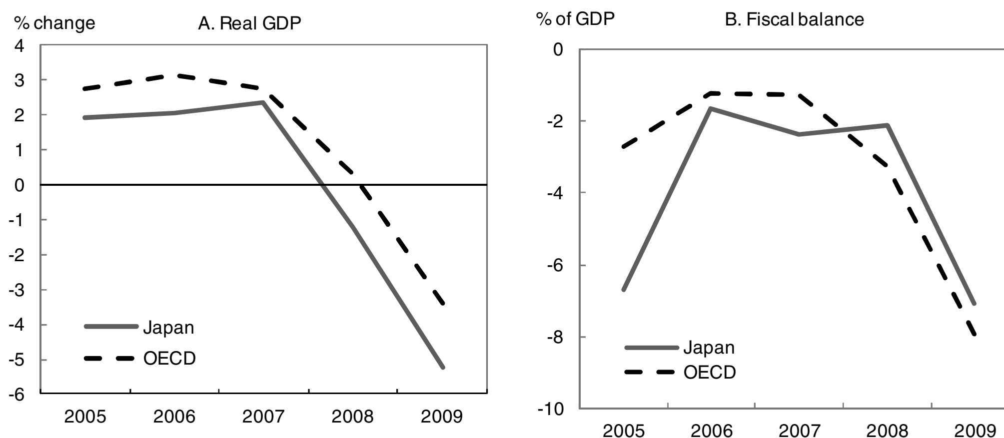
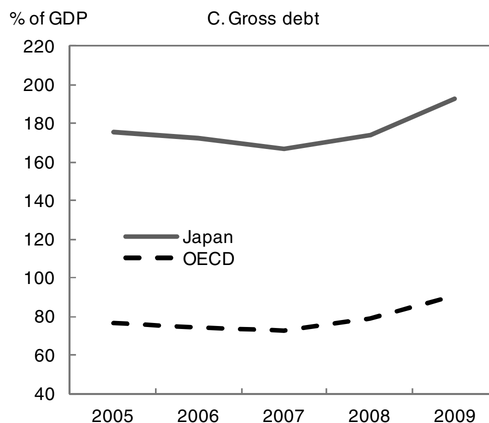


Figure 1. **Key economic indicators** *(cont'd)*



Notes: Fiscal balance and gross debt are general government financial balance and gross financial liabilities as a per cent of nominal GDP.

Source: OECD (2010), "OECD Economic Outlook No. 88", *OECD Economic Outlook: Statistics and Projections* (database), http://dx.doi.org/10.1787/data-00533-en.

2. The government's fiscal consolidation strategy

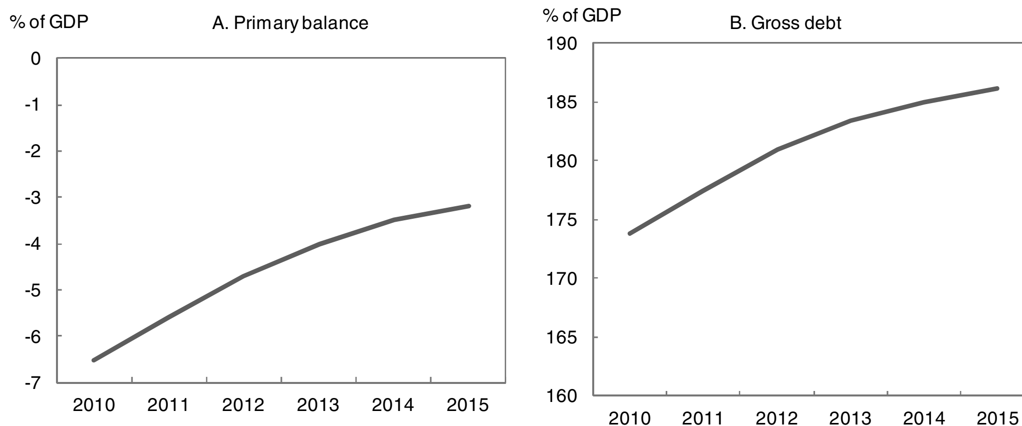
The Japanese government announced a Fiscal Management Strategy (FMS) in June 2010[5] that aimed at stabilising and eventually reducing the debt-to-GDP ratio. The FMS was based on conclusions of the Study Commission of Medium-Term Fiscal Management and endorsed by the Cabinet. The commission consisted of government officials and external experts.

The FMS sets out its consolidation targets as follows:

- Flow targets: primary balance deficit of central and local governments shall be halved from 6.4% of GDP in FY2010 by FY2015 (Figure 2A) and surplus shall be achieved by FY2020.
- Stock targets: a gradual reduction in the debt-to-GDP shall be achieved from FY2021.

In particular, the government will publish information on the progress of fiscal consolidation targets after the outline of the budget is decided for each fiscal year. When it is considered unrealistic to achieve the targets due to a crisis affecting the international or domestic economy, appropriate adjustments will be made with a new "roadmap" for returning to the fiscal consolidation path.

Figure 2. **The government's planned fiscal adjustments**



Notes: The government defines primary balance as fiscal balance minus net receivalble interest (receiable minus payable), where fiscal balance represents "net lending/net borrowing" in the SNA. The government defines gross debt as outstanding debt which is the sum of general bonds, local government bonds and borrowings in the Special Account for Local Allocation and Local Transfer Tax (SALALTT).

Source: Cabinet Office (2011), "Economic and Fiscal Projections for Medium to Long-Term Analysis", Japan.

3. Major consolidation measures

The Japanese government will freeze the primary balance expenses[6] of the central government from FY2011 to FY2013 so as not to exceed the level in the initial budget for FY2010 (overall expenditure limit). If permanent revenue increases are secured by further tax reform, the amount may be added to the overall expenditure limit. If the revenue increase is temporary, the amount should be used for reducing the government debt. In addition, the government will make efforts to keep the amount of government bonds newly issued in FY2011 at the same level as the FY2010 (about JPY 44 trillion).

Table 1. **Overall expenditure limit**

Trillions JPY

	FY 2011	FY 2012	FY 2013
Primary balance expenses (70.9 for FY 2010)	71	71	71
Of which: contingency reserve	1	1	1

Source: "OECD Fiscal Consolidation Survey 2010".

The budget proposal for FY2011, which was announced in December 2010, has some measures including reducing public works, cutting back transfers to local governments and one-off revenue measures in order to maintain the spending ceiling. One-off revenue measures include transferring the surplus of foreign exchange funds and repayment of funds by independent administrative agencies to the state treasury. The government has yet to announce any other specific consolidation measures.

4. Institutional reforms

Japan introduced a medium-term fiscal framework as a mechanism for achieving the fiscal consolidation targets. It is a rolling framework which will be updated each year. The budget for the following fiscal year shall be made based on the framework stipulated in each fiscal year.

Table 2. **The government's fiscal consolidation plan**

% of GDP

Fiscal consolidation	2010	2011	2012	2013	2014	2015
Total deficit(-)/ surplus(+)[1]	-6.5%	-5.6%	-4.7%	-4.0%	-3.5%	-3.2%
Total level of debt[1]	173.8%	177.4%	180.9%	183.4%	185.0%	186.2%

1. Primary balance and outstanding debt as defined by the government.

Source: Cabinet Office (2011), "Economic and Fiscal Projections for Medium to Long-Term Analysis", Japan.

Korea

1. Economic situation

As an open economy, Korea was severely affected by the global economic crisis and the GDP growth rate fell to 0.2% in 2009 (Figure 1A). Given Korea's sound fiscal position of consistent fiscal surpluses and relatively low debt level, the government responded to the sharp economic downturn with one of the largest fiscal stimulus packages among the OECD member countries. As a result of the large stimulus packages, the fiscal surplus dropped from 4.7% of GDP in 2007 to 0% in 2009 (Figure 1B).

The government debt reached a record high in 2009 but the debt level is very low compared to the OECD average (Figure 1C). The OECD is projecting growth of more than 4% in 2011, led by strong domestic demand and growth in exports.

Figure 1. **Key economic indicators**

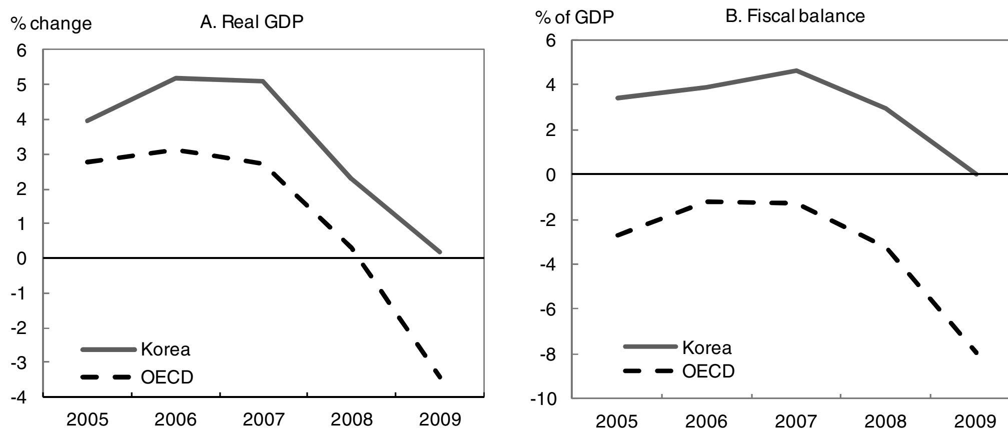
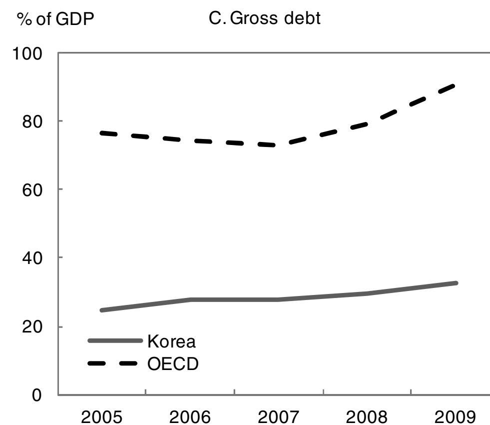


Figure 1. **Key economic indicators** *(cont'd)*



Notes: Fiscal balance (OECD estimates) and gross debt are general government financial balance and gross financial liabilities as a per cent of nominal GDP.

Source: OECD (2010), "OECD Economic Outlook No. 88", *OECD Economic Outlook: Statistics and Projections* (database), http://dx.doi.org/10.1787/data-00533-en.

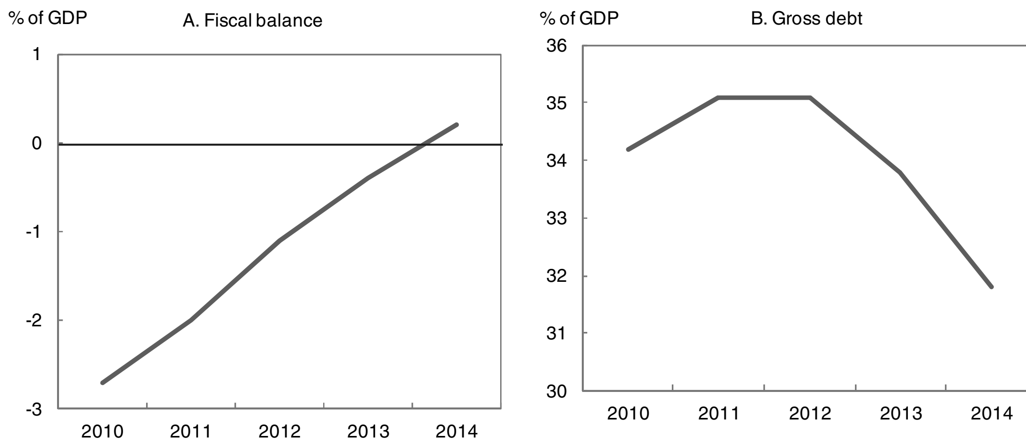
2. The government's fiscal consolidation strategy

The Korean government announced the 2010 National Fiscal Management Plan for 2010-14 in October 2010. The 2010 Plan is aimed at improving growth potential and restoring fiscal sustainability in the medium term.

According to the 2010 Plan, the Korean government will try to limit annual growth of spending to 4.8% between 2010-14, a significant slowdown from the 7% growth rate experienced between 2004-08. The government will also pursue tax reforms that concentrate on broadening the tax base by examining the current tax expenditure, with less tax benefits offered to high income earners and large corporations. With the tax reforms, revenues are projected to grow 7.7% annually in 2010-14.

The 2010 Plan set a target of reducing adjusted government deficit[7] to 0.4% of GDP in 2013 and achieving a surplus by 2014 (Figure 2A). Gross debt is expected to decline gradually from a peak of 35.1% of GDP in 2011-12 (Figure 2B).

Figure 2. **The government's planned fiscal adjustments**



Notes: Fiscal balance is defined as a consolidated central government budget balance, excluding the social security surplus. Gross debt is general government debt that covers central government and local governments.

Source: "OECD Fiscal Consolidation Survey 2010".

3. Major consolidation measures (2011 budget)

On the expenditure side, the government is focusing on reducing temporary measures for overcoming the crisis, introducing sunset clauses to government subsidies, and enhancing the efficiency of the social security delivery system.

On the revenue side, the government is aiming to limit tax exemptions and widen the tax base, such as reducing tax incentives for liquefied petroleum gas.

Table 1. **Major consolidation measures**

Billions KRW (% of GDP[1])

		2011
Expenditures		**1 159 (0.09)**
2. Programme measures		
– Social expenditure	Linking the social welfare management network to other government welfare systems to prevent fraud and strengthening screening procedures for recipients of welfare benefits.	337.3 (0.03)
– Projects for overcoming the crisis	Closing support for government–run banks and temporary projects to boost employment.	535.6 (0.04)
– Subsidies	Introduction of sunset clauses to government subsidies.	286.1 (0.02)
Revenues		**540 (0.04)**
– Tax expenditure	Limiting the extension of investment tax credit, reducing tax exemptions on golf courses, etc.	540 (0.04)

1. OECD calculations using OECD forecasts of nominal GDP.

Source: "OECD Fiscal Consolidation Survey 2010".

Pension reform

The government amended the National Pension Act in 2007 to phase in a gradual increase in the age for full retirement benefits from 60 to 65 over a 20-year period (2013-33).

4. Institutional reforms

The government revised the National Finance Act in April 2010 to make the National Fiscal Management Plan more effective and comprehensive. One of the most important revisions is that the government has to submit evaluation reports from the previous year's National Fiscal Management Plan and Debt Management Plan to the National Assembly. In addition, the plan should provide more detailed information on economic assumptions such as their impact on revenues.

The government introduced a fiscal rule in the plan[8] that will keep the growth rate of expenditures lower than that of revenues by 2-3 percentage points until fiscal balance is achieved. Accordingly, the 2011 budget limits the increasing rate of expenditure (5.7%) lower than that of revenue (8.2%) by 2.6 percentage points.

Table 2. **The government's fiscal consolidation plan**

% of GDP

Fiscal consolidation	2010	2011	2012	2013	2014
Total deficit(-)/ surplus(+) excluding social security plus	-2.7%	-2.0%	-1.1%	-0.4%	0.2%
Total deficit(-)/surplus(+)[1]	-0.2%	0.4%	1.3%	1.9%	2.5%
Total level of debt	34.2%	35.1%	35.1%	33.8%	31.8%

1. OECD estimates.

Source: "OECD Fiscal Consolidation Survey 2010".

Mexico

1. Economic situation

An improved macroeconomic policy framework put Mexico in a strong position to weather the economic crisis. Prior to the crisis, economic growth was higher than the OECD average and public debt was on a downward path.

After being hit hard by the economic downturn in 2008-09 (Figure 1A), the Mexican government introduced a discretionary stimulus package in 2009 to counter the crisis. Revenues declined due to the economic contraction and dropping oil revenues resulting from lower oil production and prices. The fiscal deficit rose sharply from 1.1% of GDP in 2008 to 5.2% in 2009, when adjusting official statistics for the use of non-recurrent revenues such as savings in the oil stabilisation funds and those from Mexico's oil hedge (Figure 1B). Public debt increased slightly, though still low compared to the OECD average (Figure 1C).

Mexico is experiencing a strong economic rebound on the back of strong export growth, in particular exports to the United States. The OECD projects the economy to grow by 4.4% in 2011.

Figure 1. **Key economic indicators**

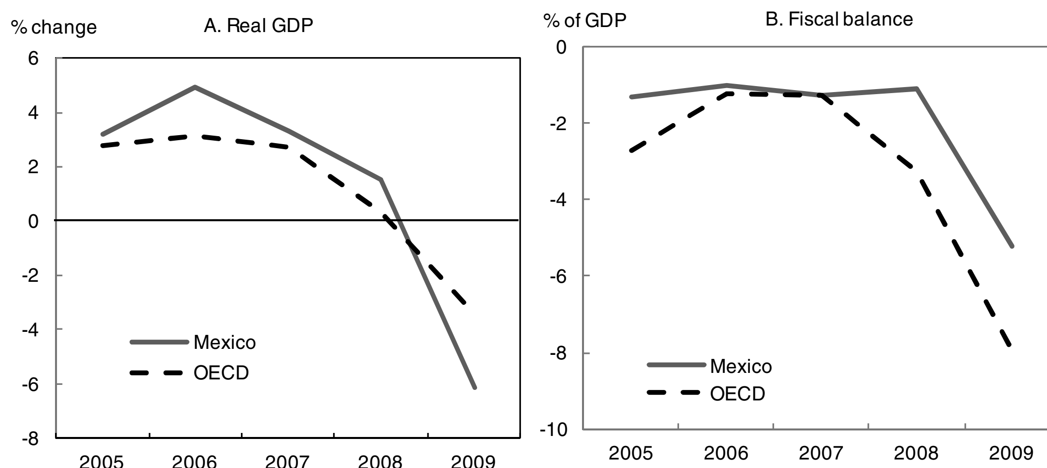
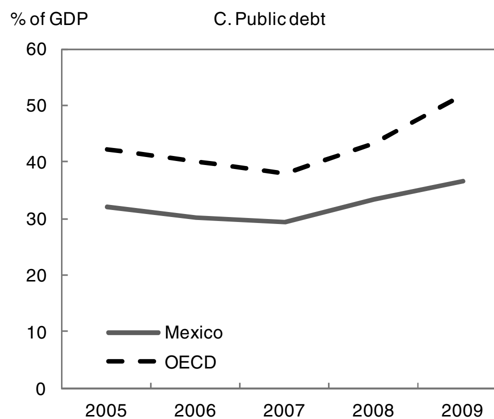


Figure 1. **Key economic indicators** *(cont'd)*



Notes: Mexico's fiscal balance is public sector borrowing requirement, as defined by the OECD, which includes central government and public enterprises' borrowing requirements as a per cent of nominal GDP. The public sector borrowing requirement differs from the government's definition of the deficit in that it excludes non-recurrent revenues (one-offs) and pure financing operations, such as withdrawals from the oil stabilisation fund. Mexico's public debt is historical balance (annual average) of the public sector borrowing requirement, which includes central government and public enterprises' borrowing requirement as a per cent of nominal GDP. Numbers are taken from Table 1 of *OECD Economic Surveys: Mexico 2011*. OECD fiscal balance and public debt are general government fiscal balance and net financial liabilities.

Sources: OECD (2010), "OECD Economic Outlook No. 88", *OECD Economic Outlook: Statistics and Projections* (database), http://dx.doi.org/10.1787/data-00533-en; OECD (2011), *OECD Economic Surveys: Mexico 2011*, OECD Publishing, Paris.

2. The government's fiscal consolidation strategy

Mexico is currently undertaking a plan for fiscal consolidation. A tax reform was approved in 2009 aiming at, according to the authorities, compensating declining oil revenues after experiencing reduced oil production from 2004 to 2009. The programme also implies a moderate growth in public expenditures and includes measures for rationalising administrative expenditures in order to free fiscal space for investment and social expenditures.

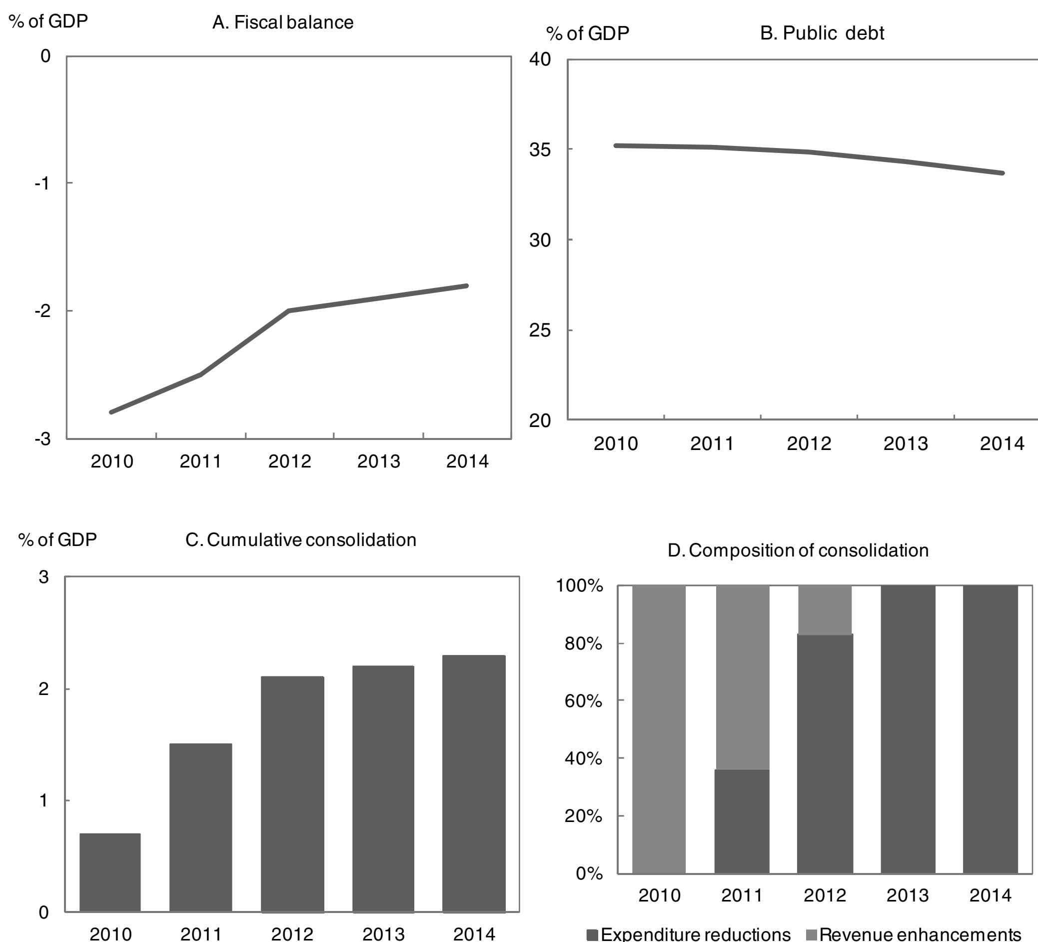
The government intends to gradually reduce the fiscal deficit, excluding investments from the state-owned oil company PEMEX, and to restore balance in 2012.

The fiscal deficit, including PEMEX's investments, decreased significantly in 2010 to 2.8% of GDP and is further targeted to decrease to 1.8% in 2014 (Figure 2A). The government expects public debt, including PEMEX's investments, to stabilise at a level of around 35% of GDP in 2010-12 (Figure 2B).

The bulk of the fiscal adjustment is front-loaded in 2010-11 (Figure 2C), relying mostly on revenue-enhancing measures (Figure 2D). The tax reform led to increased tax rates for *inter alia* the value-added tax, corporate income tax and personal income tax, with an aim to make the budget less dependent on volatile oil revenues. The government states that it chose a broad-based increase in revenues, i.e. without concentrating on a particular type of activity or source, in order to minimise possible distorting effects.

To contain expenditure growth, the National Public Expenditure Reduction programme was launched in 2010. The programme intends to trim administrative and operational expenditures by MXN 40 billion in 2010-12 and to redirect savings to social policy programmes. In addition, the growth rate of total expenditure for the period 2011-14 will be lower than that of revenues. The government expects this will contribute to reducing the public deficit by 0.3% of GDP in 2011 and by 0.5% of GDP in 2012.

Figure 2. **The government's planned fiscal adjustments**



Notes: Figures correspond to the central public sector including allocations to stabilisation funds. Fiscal balance includes PEMEX investments, as defined by the government. Public debt is central public sector net debt, as defined by the government. Fiscal consolidation is cumulative consolidation as a per cent of GDP. The composition of the contribution to fiscal consolidation is expenditure reductions and revenue enhancements (total = 100%). OECD calculations.

Source: "OECD Fiscal Consolidation Survey 2010".

3. Major consolidation measures

The most important revenue measure is the increase in the VAT rate by one percentage point to 16%, bringing expected extra revenue of about 0.6% of GDP in 2010-11. Increasing the tax rates of corporate income tax and personal income tax will also enhance revenue by 0.5% of GDP in 2010-11.

Table 1. **Major consolidation measures**

Millions MXN (% of GDP[1])

		2010 implemented	2011
Revenues		**90969.3 (0.70)**	**74668.2 (0.58)**
VAT	Increasing the tax rate from 15% to 16%.	56259.3 (0.44)	16942.0 (0.13)
Income tax	Raising the corporate income tax rate from 28% to 30%;increasing top rate of the personal income tax from 28% to 30%; income tax rate for agricultural producers from 19% to 21%.	35382.2 (0.27)	32287.5 (0.25)
Excise taxes	Extra excise taxes on alcohol, lotteries, games and cigarettes; Introduction of a new excise tax on telecommunications.	8562.9 (0.07)	10625.6 (0.11)
Cash deposits tax	Raising the tax rate from 2% to 3%.	-9335.0 (-0.07)	10625.6 (0.08)

1. OECD calculations using OECD forecasts of nominal GDP for 2010-11.

Source: "OECD Fiscal Consolidation Survey 2010".

Table 2. **The government's fiscal consolidation plan**

% of GDP

Fiscal consolidation	2010 implemented	2011	2012	2013	2014
Consolidation measures (cumulative)	0.7	1.5	2.1	2.2	2.3
Total deficit/surplus[1]	-2.8	-2.5	-2.0	-1.9	-1.8
Total deficit/surplus[2]	-0.8	-0.5	0.0	0.0	0.0
Total level of debt[3]	35.2	35.1	34.8	34.3	33.7
Total level of debt[4]	30.9	30.7	30.1	29.5	28.8
Composition of fiscal consolidation (total = 00%)					
Expenditure reductions[5]	0	36%	83%	100%	100%
Revenue enhancements	100%	64%	17%	0	0

1. Central public sector including allocations to stabilisation funds and PEMEX's investment, as defined by the government.
2. Central public sector including allocations to stabilisation funds but excluding PEMEX's investment, as defined by the government.
3. Central public sector net debt, as defined by the government.
4. Central government net debt, as defined by the government.
5. Based on keeping the growth rate of expenditure lower than that of revenues.

Source: "OECD Fiscal Consolidation Survey 2010".

Netherlands

1. Economic situation

The Netherlands was relatively hard hit by the economic crisis in 2008 and 2009 with GDP growth dropping more than the OECD average in 2009 (Figure 1A). In the run up to the crisis, Dutch fiscal positions were flattering compared with other OECD member countries. A sound fiscal framework provided successive fiscal surpluses during the period 2006-08. Positive fiscal balances led to declining debt-to-GDP ratios, reaching levels considerably below those seen in other OECD member countries (Figures 1B and 1C).

As the temporary growth spurt in the first half of 2010 fades, the economy is becoming more reliant on the recovery in world trade. The OECD projects the economy to pick up modestly. Growth over the next two years will mostly be export driven, as the domestic economy only slowly gains pace.

Figure 1. **Key economic indicators**

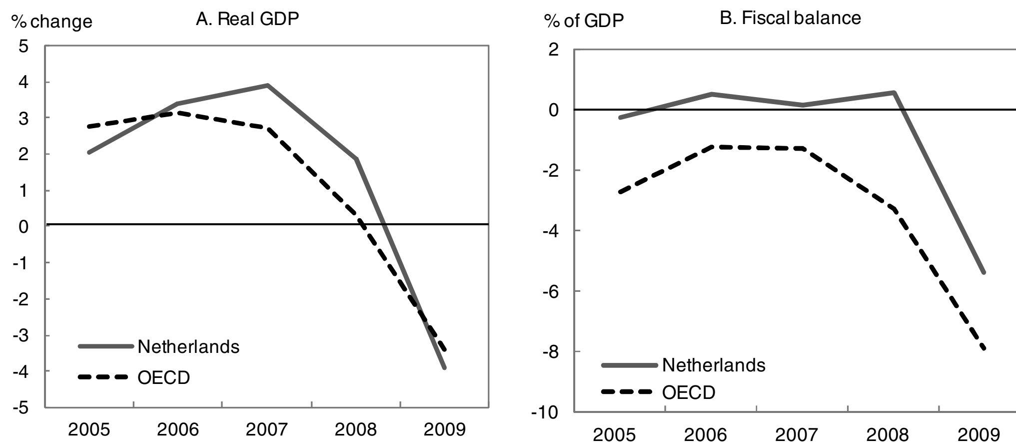
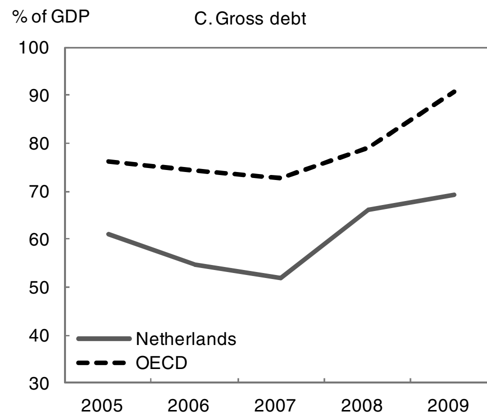


Figure 1. **Key economic indicators** *(cont'd)*



Notes: Fiscal balance and gross debt are general government financial balance and gross financial liabilities as a per cent of nominal GDP.

Source: OECD (2010), "OECD Economic Outlook No. 88", *OECD Economic Outlook: Statistics and Projections* (database), http://dx.doi.org/10.1787/data-00533-en.

2. The government's fiscal consolidation strategy

The main goal of the Dutch consolidation strategy is to restore financial sustainability. Consolidation is deemed necessary in order to close current deficits and to put public finances on a sound footing before age-related costs start increasing rapidly.

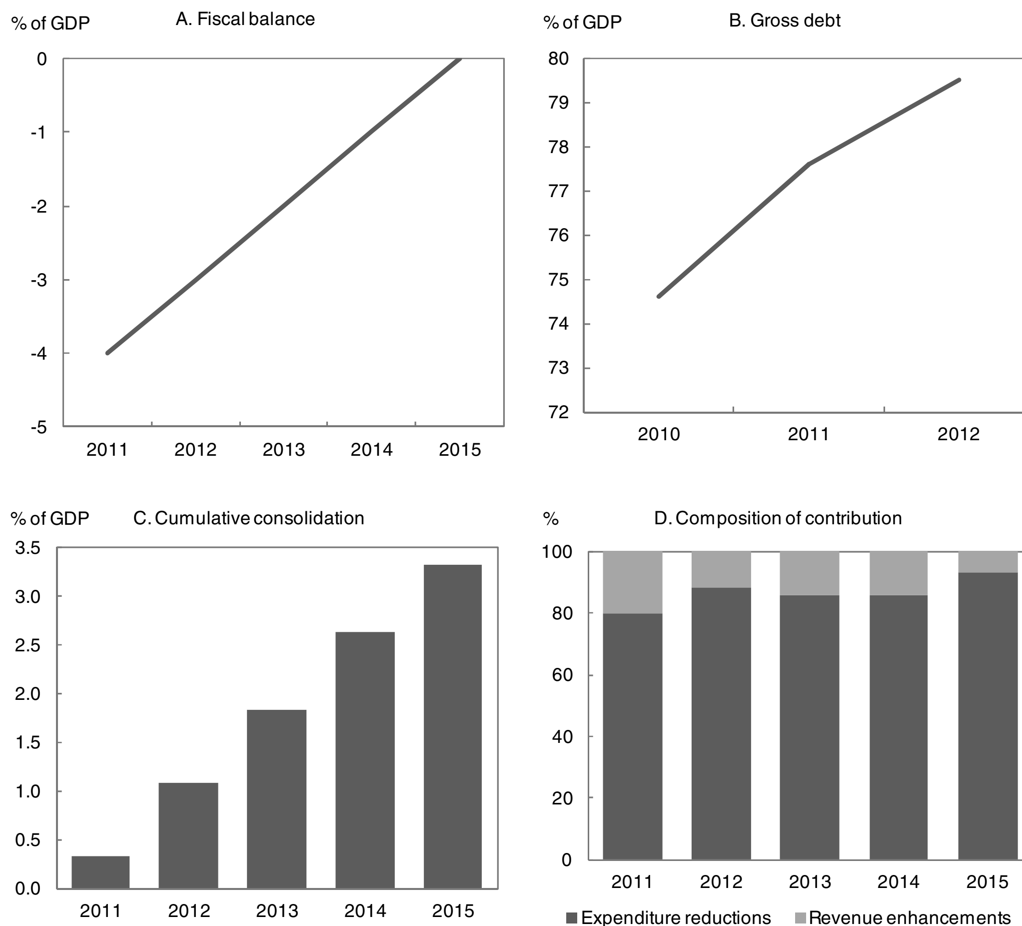
The current government is aiming to reach fiscal balance in 2015 (Figure 2A). The Netherlands uses a medium-expenditure framework linked to the political cycle over a four-year period. Annual expenditure ceilings are set for each ministerial area by the incoming cabinet. The consolidation package of the previous cabinet for the period 2011-15 included savings of EUR 1.4 billion in 2011, increasing to EUR 3.1 billion in 2015. The new cabinet adopted this package and added new substantial consolidation measures of EUR 1.4 billion in 2011 and augmenting new measures to EUR 15 billion by 2015. In total, the consolidation plan amounts to around EUR 18 billion, or 3.3% of GDP, by 2015.

The consolidation plan is incorporated in the medium-term expenditure framework which will only be adjusted if in any year the nominal deficit limit of the Stability and Growth Pact (3% of GDP) is breached without adjustment. If a fiscal surplus is expected to take place every year over the medium term, 50% of the surplus will be used for paying off public debt and 50% will be used for tax reliefs. The strict medium-term expenditure framework should facilitate and secure implementation of the consolidation plan over the time period.

The gross debt ratio to GDP is expected by the OECD to increase to almost 80% of GDP by 2012 (Figure 2B). A slightly back-loaded consolidation is envisaged, with a roughly equal annual consolidation effort from 2012 and onwards (Figure 2C). The outermost part of consolidation comes from the expenditure side over the whole period (Figure 2D).

The government's fiscal consolidation plan has been designed to protect some politically important areas. For example, the government plans to increase spending in the field of security and order and some parts of health care.

Figure 2. **The government's planned fiscal adjustments**



Notes: Fiscal balance and gross debt are general government financial balance and gross financial liabilities on a Maastricht basis as a per cent of nominal GDP. Deficit figures in 2011 and debt figures based on projections from OECD (2010), "OECD Economic Outlook No. 88", *OECD Economic Outlook: Statistics and Projections* (database), http://dx.doi.org/10.1787/data-00533-en. Fiscal consolidation is cumulative consolidation as a per cent of GDP. Linear fiscal balance improvement illustrated until 2015. The composition of the contribution to fiscal consolidation is expenditure reductions and revenue enhancements (total = 100%). OECD calculations.

Source: "OECD Fiscal Consolidation Survey 2010".

3. Major fiscal consolidation measures

The Netherlands is implementing a wide range of measures to consolidate public finances. Operational measures amount to just above 1% of GDP by 2015, notably by adopting across the board savings on ministerial areas. Programme measures equal almost 2% of GDP by 2015, a substantial measure is the reduction of social benefits. On the revenue side, many small tax changes contribute in total 0.2% of GDP by 2015.

Table 1. **Major consolidation measures**

Millions EUR (% of GDP[1])

	2010 prices	2011	2012	2013	2014	2015
Expenditures		**1 600 (0.27)**	**5 600 (0.95)**	**9 300 (1.57)**	**13 400 (2.27)**	**18 300 (3.10)**
1. Operational measures		1 000 (0.17)	2 000 (0.34)	3 500 (0.59)	5 000 (0.85)	7 000 (1.18)
– Operational expenditures of general government	Cut on all operational expenditures (employment, compensation, procurement) of the administrative part (exclusive of service delivery: education, police, military, social service providers, etc.).	200 (0.03)	1 200 (0.20)	2 700 (0.46)	4 100 (0.69)	6 100 (1.03)
– Compensation of employment	Moderate salary development in the entire publicly funded sector (general government administration and service delivery) as well as collectively funded corporate sector (health services, cultural services, etc.).	800 (0.14)	800 (0.14)	800 (0.14)	900 (0.15)	900 (0.15)
2. Programme measures		600 (0.10)	3 600 (0.61)	5 800 (0.98)	8 400 (1.42)	11 300 (1.91)
– Subsidies		200 (0.03)	500 (0.08)	800 (0.12)	1 100 (0.19)	1 400 (0.24)
– Immigration and integration					100 (0.02)	100 (0.02)
– Development aid		400 (0.07)	900 (0.15)	800 (0.14)	1 800 (0.30)	1 900 (0.32)
– Social benefits			1 500 (0.25)	2 700 (0.46)	3 600 (0.61)	4 300 (0.73)
– Education			500 (0.08)	1 000 (0.17)	1 100 (0.19)	1 300 (0.22)
– Health care				100 (0.02)	300 (0.05)	700 (0.12)
– Permanent care			200 (0.03)	300 (0.05)	300 (0.05)	1 400 (0.24)
– Other				100 (0.02)	100 (0.02)	200 (0.03)
Revenues		**400 (0.07)**	**800 (0.14)**	**1 500 (0.25)**	**2 200 (0.37)**	**1 300 (0.22)**
– 16 revenue measures		400 (0.07)	800 (0.14)	1 500 (0.25)	2 200 (0.37)	1 300 (0.22)

1. OECD calculations using OECD forecast of nominal GDP for 2010.

Source: “OECD Fiscal Consolidation Survey 2010”.

4. Institutional reforms

The temporary exclusion of cycle-sensitive expenditures from the expenditure framework during the economic crisis will come to an end. All expenditures, including all entitlement spending, will be brought back under the ceilings. Interest expenditures will be treated asymmetrically. If interest expenditures are higher than expected, other expenditures will be reduced; if they are lower they will be treated as windfall gain, not giving more room for other expenditure initiatives.

The rules of budgetary discipline, specifying the responsibility of ministers for the maintenance of the sub-ceilings under their responsibility (ceilings for ministerial portfolios, social security and health) will be revised and strengthened. To control budgetary risk, the rules for the provision of guarantees will be enhanced. The monitoring

of tax expenditures will be improved. The Fund for Strengthening the Economic Structure (based on gas revenues and privatisation proceeds) will be abolished. The committed resources of the fund will be transferred to the ministerial budgets and the infrastructure fund; the uncommitted resources will be transferred to the regular budget.

Table 2. **The government's fiscal consolidation plan**

% of GDP

Fiscal consolidation	2011	2012	2013	2014	2015
Consolidation volume (cumulative)	0.3%	1.1%	1.8%	2.6%	3.3%
Total level of debt	77.6%	79.5%			
Fiscal consolidation by expenditure reduction and revenue enhancement (total = 100%)					
Expenditure reductions	80%	88%	86%	86%	93%
Revenue enhancements	20%	12%	14%	14%	7%

Notes: OECD calculations. Consolidation volume does not include new expenditure spending amounting to 0.5% of GDP by 2015. The current government aims to reach fiscal balance in 2015. Debt figures based on projections from OECD (2010), "OECD Economic Outlook No. 88", *OECD Economic Outlook: Statistics and Projections* (database), http://dx.doi.org/10.1787/data-00533-en.

Source: "OECD Fiscal Consolidation Survey 2010".

New Zealand

1. Economic situation

The New Zealand economy experienced a recession through 2008 and early 2009, yet the contraction in output was less than the OECD average (Figure 1A). Consistent fiscal surplus due in part to earlier fiscal reforms, swung to a deficit of 3.7% of GDP in 2009 (Figure 1B). Gross debt increased to 34.5% of GDP by 2009, but remains well below the OECD average (Figure 1C).

The economic recovery gained momentum at the end of 2009, benefitting from monetary and fiscal policy stimulus and a rebound in commodity prices. However, the recovery remains fragile in 2010 due to high private sector indebtedness and economic uncertainties weighing on households and firms. The OECD expects the mild recovery to become self-sustaining in coming years as businesses hire and invest to meet the expected recovery in export and consumer demand.

Figure 1. **Key economic indicators**

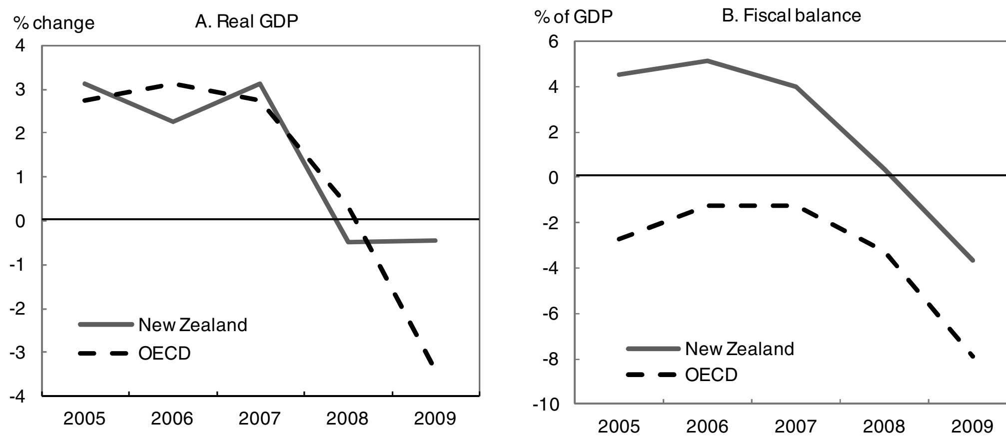
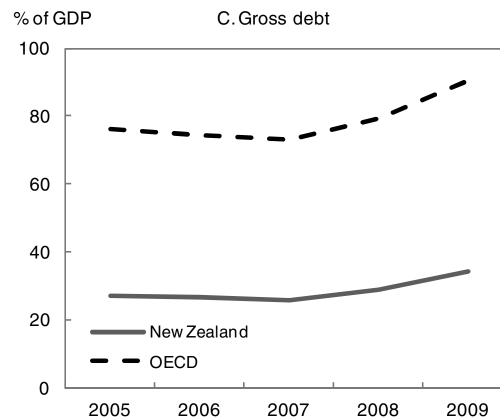


Figure 1. **Key economic indicators** *(cont'd)*



Notes: Fiscal balance and gross debt are general government financial balance and gross financial liabilities as a per cent of nominal GDP.

Source: OECD (2010), "OECD Economic Outlook No. 88", *OECD Economic Outlook: Statistics and Projections* (database), http://dx.doi.org/10.1787/data-00533-en.

2. The government's fiscal consolidation strategy

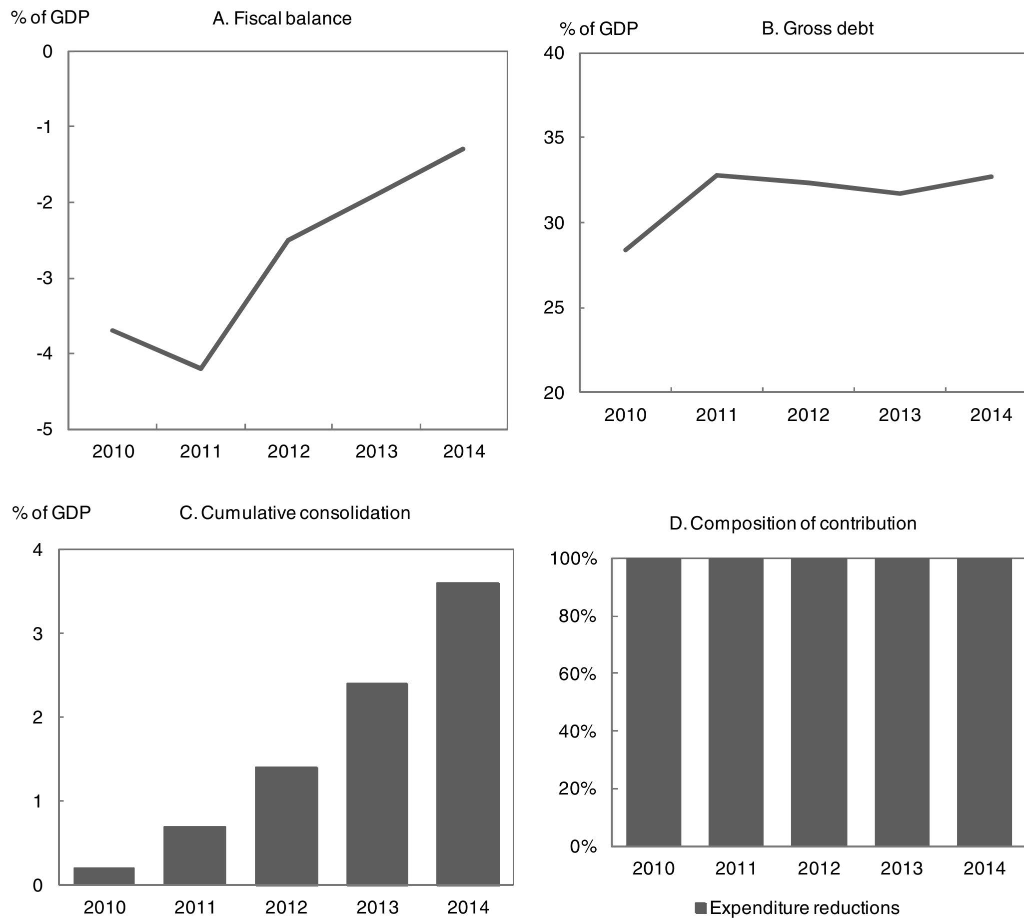
The government's fiscal strategy aims to return the operating balance to surplus (before adjusting for gains and losses on investment portfolios) as quickly as is practical. The May 2010 budget did not project an operating surplus until 2016. The government has also set itself a non-binding commitment to return "net debt" to 20% of GDP by 2022 (and for net debt to remain consistently below 40% of GDP). Current projections see net debt peaking at 27.4% of GDP in 2015.

The government's revenue strategy focuses on minimising tax impediments to growth, which should indirectly support fiscal consolidation by increasing trend growth rates. In budget 2010, the government delivered a fiscally neutral tax package, with personal and corporate income tax rate cuts funded from an increase in the consumption tax rate. The government has also said that favourable revenue surprises will be used for deficit reduction purposes.

The focus of recent budgets has been to restrain the growth in government spending and limit the rise in sovereign debt. As a result the operating allowance on new spending has been capped at NZD 1.1 billion per annum in 2011, with growth of only 2% in following years. Deficits are therefore expected to diminish over time as the projected growth in revenues exceeds that of expenditure. New Zealand's fiscal consolidation effort is entirely expenditure-based (Figure 2D) with the survey response having estimated the cumulative size to be 3.6% of GDP to 2014 (Figure 2C).

The government's operating deficit is forecast to deteriorate from 2.1% of GDP in 2009, to a trough of 4.2% by 2011 (Figure 2A). Gross debt is projected to peak at 32.8% of GDP in 2011 and stabilise at around this level thereafter (Figure 2B).

Figure 2. **The government's planned fiscal adjustments**



Notes: Fiscal balance and gross debt are general government financial balance and gross financial liabilities as a per cent of nominal GDP. Fiscal consolidation is cumulative consolidation as a per cent of GDP, defined by the New Zealand Treasury to be "reduced operating allowances relative to budget 2008". The composition of the contribution to fiscal consolidation is expenditure reductions (total = 100%). OECD calculations.

Source: "OECD Fiscal Consolidation Survey 2010".

3. Major fiscal consolidation measures

The primary focus of fiscal adjustment has been on containing public consumption spending, and reducing operational expenditures across ministries. Parameters for social entitlements (such as pensions, working-age benefits and other transfers) have not been changed.

Table 1. **Major consolidation measures**

		Budgetary impact 2010-14
Expenditures		
1. Operational measures		
– Operating allowances	Reduction in government operating allowances from 2010-14. Savings include a cap on new spending for the government administration and public services such as health and education, efficiency gains from amalgamating departments, and budget reprioritisation following expenditure reviews.	n.a.
2. Programme measures		
– Entitlement spending	Rules for receiving entitlements have been tightened to avoid abuse of the system and eliminate wasteful spending.	n.a.
3. Other initiatives		
	Payments to the New Zealand Superannuation Fund have been suspended until 2018/19.	n.a.
	In 2009 and 2010, independent working groups were created to provide recommendations for reform across taxation, capital markets, infrastructure, national savings, welfare, and healthcare spending efficiency.	n.a.
Revenues		
– VAT	New Zealand's consumption tax was increased from 12.5% to 15% in 2010. Revenue gains were offset by a reduction in the corporate tax rate from 30% to 28%, and a fall in the top income tax rate from 38% to 33%.	n.a.
– Property depreciation rates	Building depreciation rates were reduced to zero to help address the problem of over-investment in residential property.	n.a.

Source: "OECD Fiscal Consolidation Survey 2010".

Table 2. **The government's fiscal consolidation plan**

Fiscal consolidation (% of GDP)	2010	2011	2012	2013	2014
Consolidation measures (cumulative)[1]	0.2%	0.7%	1.4%	2.4%	3.6%
Total deficit/surplus (% of GDP)	-3.7%	-4.2%	-2.5%	-1.9%	-1.3%
Total level of net debt	14.1%	19.6%	23.0%	25.3%	26.5%
Total level of gross debt	28.4%	32.8%	32.3%	31.7%	32.7%
Composition of fiscal consolidation (total = 100%)					
Expenditure reductions	100%	100%	100%	100%	100%

1. New Zealand Treasury estimates of the reduced operating allowances relative to budget 2008.

Source: "OECD Fiscal Consolidation Survey 2010".

Poland

1. Economic situation

Poland was the best performing country in the OECD in 2009 with the economy recording economic growth of 1.7% and one of the few to avoid recession. Indeed, economic growth has exceeded the OECD average for a number of years, reflecting successful reforms and economic policy adopted in prior years (Figure 1A). In contrast, Poland's fiscal position has continued to deteriorate over the past few years with the 2009 budget deficit widening to 6.8% of GDP (Figure 1B).

Gross debt measuring 58.5% of GDP in 2009 is set to rise slightly in coming years but remain well below the OECD average (Figure 1C). Poland's economic growth is projected to rebound strongly in the short-term (GDP growth of 3.8% expected in 2010) driven by export growth, private consumption, and infrastructure investments linked to the transfers of EU funds and the 2012 European football championship.

Figure 1. **Key economic indicators**

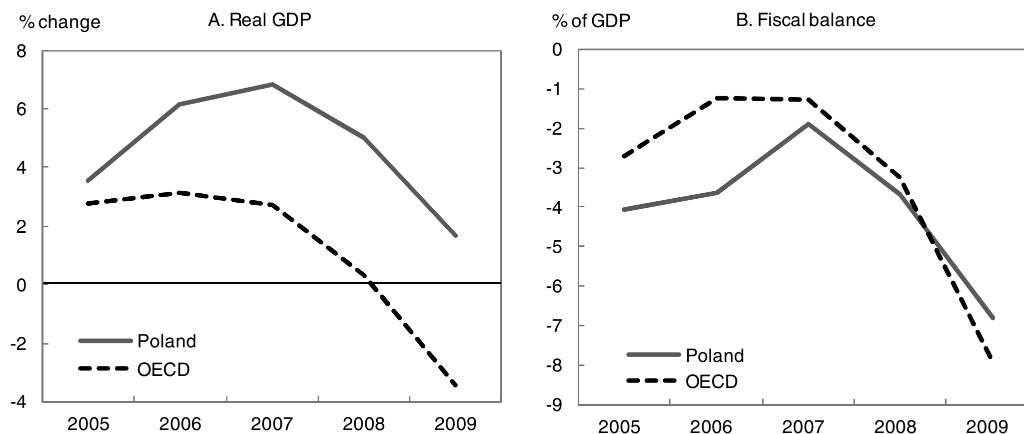
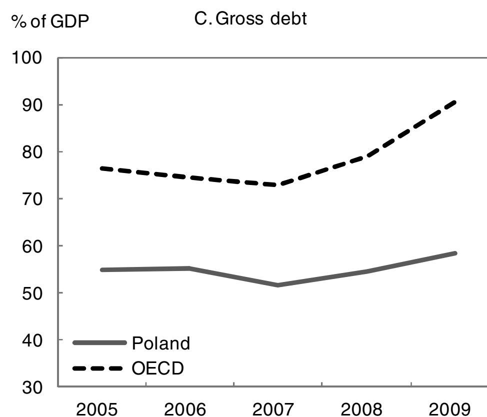


Figure 1. **Key economic indicators** *(cont'd)*



Note: Fiscal balance and gross debt are general government financial balance and gross financial liabilities as a per cent of nominal GDP.

Source: OECD (2010), "OECD Economic Outlook No. 88", *OECD Economic Outlook: Statistics and Projections* (database), http://dx.doi.org/10.1787/data-00533-en.

2. The government's fiscal consolidation strategy

The main goal of Poland's medium-term budget strategy is to reduce the general government deficit below 3% of GDP no later than 2013, paving the way for eventual adoption of the euro. The government has undertaken a number of new measures in order to rationalise public expenditures and increase control over public funds.

Poland's fiscal framework contains a public debt rule which is anchored in the Constitution (national debt definition) and limits gross debt to 60% of GDP. Recent changes strengthened existing prudential and remedial procedures that are applied if debt exceeds the thresholds of 50%, 55% and 60% of GDP. In addition, an expenditure-based fiscal rule is planned– the aim being to further restore and maintain fiscal stability in Poland by capping discretionary spending growth at 1% per annum. Poland also recently introduced four-year rolling fiscal plans to provide medium term fiscal guidance.

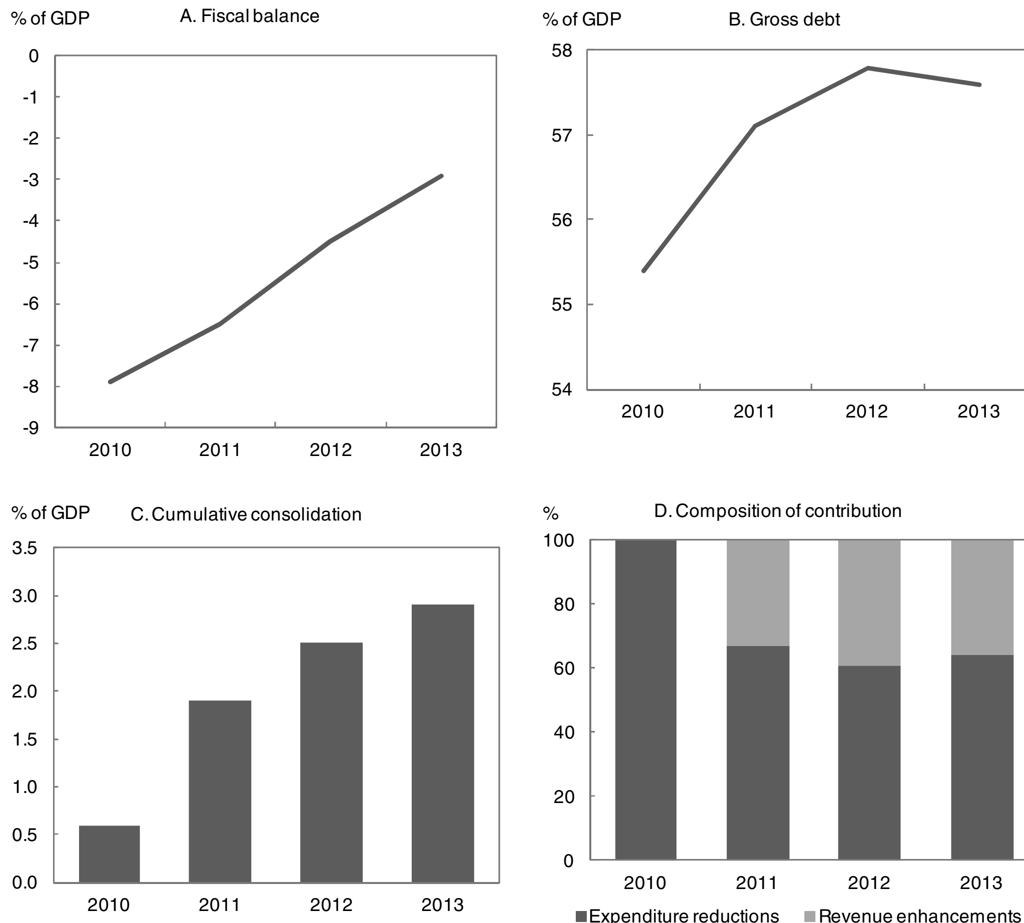
The release of the "Plan for Development and Consolidation of Public Finance for 2010-11" in January 2010 also included an agenda for pension reform, privatisation and the broadening of tax bases. The planned broadening of the tax base and higher marginal tax rates are likely to contribute additional revenue in coming years. Shielded from the spending cuts are research and development and expenditure for co-financing of projects with the participation of the European Union funds.

Planned expenditure-based consolidation measures have been somewhat front-loaded when including pension measures (Figure 2C). The privatisation of state assets has also been relied upon to help close the deficit.

The budget deficit is expected to steadily narrowing in the years to 2013. Poland plans to keep public debt below the intermediate threshold of 55% of GDP in 2010 and the ultimate 60% ceiling in 2011 and 2012 using a variety of measures. These include privatising state-owned companies and shifting some public infrastructure spending to the

National Road Fund (excluded from the domestic definition of public debt). Poland also speeded up its programme to privatise state assets.

Figure 2. **The government's planned fiscal adjustments**



Notes: Fiscal balance and gross debt are general government financial balance and gross financial liabilities on a Maastricht basis as a per cent of nominal GDP. Fiscal consolidation is cumulative consolidation as a per cent of GDP. The composition of the contribution to fiscal consolidation is expenditure reductions and revenue enhancements (total = 100%). OECD calculations.

Source: "OECD Fiscal Consolidation Survey 2010".

3. Major consolidation measures

According to the authorities, mandatory spending is significant and should be taken into account when discussing the fiscal rule. Expenditures on some inefficient programmes should in fact fall. The abolishing of the early retirement scheme and VAT hikes are the most important consolidation measures, contributing 1.3% of GDP and 0.5% of GDP respectively by 2013. In addition, a temporary expenditure rule limiting the growth rate of flexible expenditures will contribute substantially.

Table 1. **Major consolidation measures**

% of GDP[1]

		2010	2011	2012	2013
Expenditures		**0.60**	**1.30**	**1.55**	**1.85**
1. Operational measures			0.20	0.40	0.50
– Wages	Freezing salaries in central government.		n.a.	n.a.	n.a.
– Staffing	Freezing employment in central government.		n.a.	n.a.	n.a.
– Expenditure rule	Temporary expenditure rule. The expenditure rule limits the growth rate of flexible expenditures and all new fixed expenditure to CPI plus 1%. If the structural deficit is close to a deficit of 1% of GDP, a second, permanent rule – currently under preparation – will be operational.		0.20	0.40	0.50
2. Programme measures		0.60	1.10	1.15	1.35
– Labour market	Reduction of active labour market measures.		0.15		
– Pensions[2]	Suspension of pension benefits for persons employed.		0.05	0.05	0.05
	Abolition of early retirement scheme.	0.60	0.90	1.10	1.30
Revenues			**0.64**	**0.99**	**1.05**
– VAT	Increasing the VAT base rate from the current 22% to 23%, starting 1 January 2011; the reduced VAT rate will rise to 8%, compared to the current 7%; and other adjustments.		0.46	0.46	0.40
– Excise duties	Increasing the excise on tobacco.		0.02	0.04	0.06
	Expire of the period of exemption from excise duty tax on coal and coke for combustion purposes.			0.30	0.30
	Lowered excise duty on fuel with the use of bio-components will be abolished.		0.06	0.09	0.09
– Personal income tax	Freezing of thresholds.		0.10	0.10	0.20

1. Per cent of GDP figures were provided by the Polish Ministry of Finance.
2. In addition, Poland plans to redirect 5 percentage points of pension contributions from the second pillar of the pension system to the first pillar (Social Security Fund).

Source: "OECD Fiscal Consolidation Survey 2010".

4. Institutional reforms

Public debt rule: extension of the operating range: the constitutionally enshrined fiscal rule that capped public debt at 60% of GDP is supplemented by the Public Finance Act. The act sets out prudential thresholds of 50%, 55% and 60% of GDP. Should these thresholds be breached, prudential and remedial measures would be implemented. Constraints would mainly affect the deficits of the state budget and local government and the issuances of guarantees. The new Public Act adopted in 2009 strengthened the prudential and remedial measures for the 55% and 60% thresholds.

Proposed expenditure rule: defined as a priority in the "Plan of Development and Consolidation of Public finance for 2010-11", the government plans to introduce a fiscal rule than would cap real spending growth at 1% per year. Initially, the expenditure rule would be applied when Poland was subject to an excessive deficit procedure (deficit in excess of 3% of GDP), and as a next step, to ensure that the deficit of the general government sector is maintained at the level of the medium-term objective of 1% of GDP.

Table 2. **The government's fiscal consolidation plan**

% of GDP

Fiscal consolidation	2010	2011	2012	2013
Consolidation volume (cumulative)	0.6%	1.9%	2.5%	2.9%
Total deficit(-)/ surplus(+)	-7.9%	-6.5%	-4.5%	-2.9%
Total level of debt	55.4%	57.1%	57.8%	57.6%
Fiscal consolidation by expenditure reduction and revenue enhancement (total = 100%)				
Expenditure reductions	100%	67%	61%	64%
Revenue enhancements		33%	39%	36%

Source: "OECD Fiscal Consolidation Survey 2010".

Portugal

1. Economic situation

As a small open economy, the Portuguese economy was hit by the global crisis and the economy recorded zero growth in 2008, followed by a 2.5% contraction in 2009 (Figure 1A).

Thanks to successive fiscal consolidation programmes and a growing economy, the fiscal balance improved significantly between 2005 and 2007. But the fiscal balance deteriorated to record a deficit of 9.4% of GDP in 2009 – due to the economic downturn and the fiscal stimulus packages in response to the crisis (Figure 1B).

Before the global crisis, the general government debt to GDP ratio had been declining slightly, but grew significantly in 2009 (Figure 1C). The OECD is expecting the economy to remain weak into 2011, due to strong fiscal consolidation and tight credit conditions.

Figure 1. **Key economic indicators**

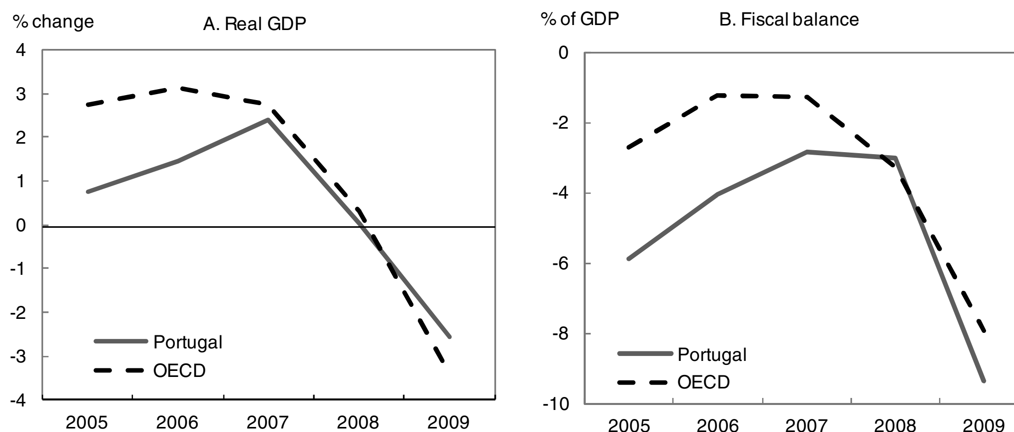
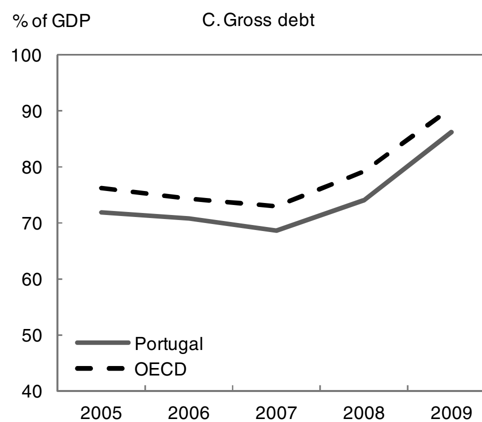


Figure 1. **Key economic indicators** *(cont'd)*



Notes: Fiscal balance and gross debt are general government financial balance and gross financial liabilities as a per cent of nominal GDP.

Source: OECD (2010), "OECD Economic Outlook No. 88", *OECD Economic Outlook: Statistics and Projections* (database), http://dx.doi.org/10.1787/data-00533-en.

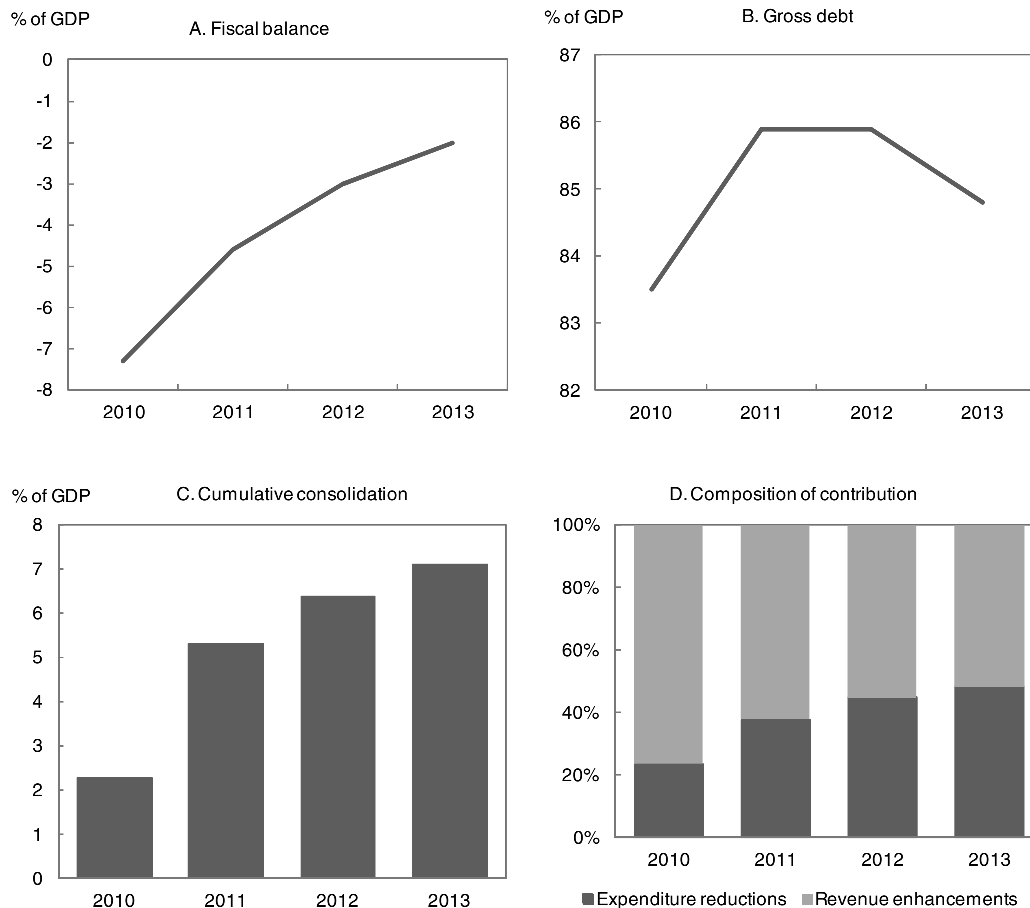
2. The government's fiscal consolidation strategy

The Portuguese government announced its fiscal consolidation strategy in March 2010 for the period 2011-13. Moreover, the government proposed additional consolidation measures in May and September 2010 following turmoil on international currency and debt markets.

In March 2010, the government set a target to reduce the government deficit to 2.8% of GDP by 2013. Based on the additional measures, the deficit is scheduled to reach below 3% of GDP by 2012, one year earlier than the deadline in the Stability and Growth Programme. The current deficit target is 2.0% of GDP for 2013 (Figure 2A).

The government expects public debt to stabilise in 2011-12 (Figure 2B) due in part to the consolidation efforts (Figure 2C). As a means of achieving the deficit target, the government will rely on a somewhat larger contribution from revenue measures than expenditure cuts. Revenue measures include the transfer of Portugal Telecom's pension amounting to a total of EUR 2.8 billion (1.6% of GDP) to the state in 2010-12.[9] The contribution from expenditure reductions, however, is planned to increase over time (Figure 2D).

Figure 2. **The government's planned fiscal adjustments**



Notes: Fiscal balance and gross debt are general government financial balance and gross financial liabilities on a Maastricht basis as a per cent of nominal GDP. Fiscal consolidation is cumulative consolidation as a per cent of GDP. The composition of the contribution to fiscal consolidation is expenditure reductions and revenue enhancements (total = 100%). OECD calculations.

Sources: Ministry of Finance and Public Administration (2010), "Steering Report on the Budgetary Policy", Portugal; Ministry of Finance and Public Administration (2010), Press release, Portugal.

3. Major consolidation measures

One significant measure on the expenditure side is to reduce social expenditures: defining ceilings for the non-contributory social security schemes and other measures will yield savings of about 1% of GDP. A reduction in operational costs, including a 5% wage cut on average in the public sector and limiting staff hiring, will be pursued in order to decrease the ratio of compensation of employees to GDP to 10% by 2013.

The government is also taking a number of measures to strengthen the tax base. For example, the government increased the standard rate for VAT from 21% to 23%, effective since January 2011. This is the second rise, following the one percentage point increase in July 2010. These tax measures will represent about 1.6% of GDP in 2013. The transfer of Portugal Telecom's pension plans will bring extra revenue amounting to 1.6% of GDP.

Table 1. **Major consolidation measures**

% of GDP

		2010	2011[1]	2012	2013
Expenditures		**0.53**	**2.00**	**2.73**	**3.41**
1. Operational measures		0.18	0.66	0.77	1.04
– Compensation of employees	Wage restraints and freezing of recruitment of civil servants.	0.11	0.36	0.58	0.84
– Intermediate consumption expenditure	Reduction of operating expenditure and ceilings for outsourcing expenditures.	0.07	0.30	0.19	0.20
2. Programme measures		0.35	1.31	1.89	2.28
– Social expenditure	Definition of ceilings for the non-contributory social security schemes.	0.08	0.29	0.45	0.54
	Control of health expenditure.	0.00	0.20	0.30	0.39
	Other social expenditures.	0.00	0.03	0.05	0.06
– Subsidies	Reduction of the transfers for the state-owned enterprises.	0.05	0.08	0.08	0.08
– Capital expenditure	Postponing the Lisbon-Porto and Porto-Vigo high-speed rail links and commitment to no new road infrastructure.	0.22	0.71	1.01	1.21
3. Other initiatives		0.00	0.03	0.07	0.10
– Interest expenditure	Reduction of debt costs as a result of privatisation operations.	0.00	0.03	0.07	0.10
Revenues		**1.73**	**3.31**	**3.38**	**3.68**
– Tax expenditure	Limitation of personal income tax allowances and other tax benefits.	0.00	0.45	0.46	0.46
– Tax and contributory revenues	Raising VAT rates, additional taxation on the personal income and corporate income, broadening social security contributions, levy to the financial system.	0.63	1.50	1.56	1.61
– Non-tax revenues	Introduction of tolls in motorways.	0.00	0.11	0.11	0.11
– Transfer of Portugal Telecom's pension plans[2]		1.10	1.36	1.61	1.61

1. According to the 2011 budget, fiscal consolidation measures will amount to 4.1% of GDP in 2011 (expenditure reduction 2.7% of GDP, revenue increase 1.4% of GDP).

2. Ministry of Finance and Public Administration (2010), Press release, Portugal.

Source: Ministry of Finance and Public Administration (2010), "Steering Report on the Budgetary Policy", Portugal.

Table 2. **The government's fiscal consolidation plan**

% of GDP

Fiscal consolidation	2010	2011	2012	2013
Consolidation volume (cumulative)	2.3%	5.3%	6.4%	7.1%
Total deficit(-)/ surplus(+)	-7.3%	-4.6%	-3.0%	-2.0%
Total level of debt	83.5%	85.9%	85.9%	84.8%
Fiscal consolidation by expenditure reductions and revenue enhancements (total = 100%)				
Expenditure reductions	23.5%	37.7%	44.7%	48.1%
Revenue enhancements	76.5%	62.3%	55.3%	51.9%

Sources: Ministry of Finance and Public Administration (2010), "Steering Report on the Budgetary Policy", Portugal; Ministry of Finance and Public Administration (2010), Press release, Portugal.

Slovak Republic

1. Economic situation

The Slovak economy has enjoyed strong economic performance in recent years. Growth has been one of the highest among the OECD member countries, with a record rate of 10.6% in 2007. The economy, however, suffered a deep recession primarily due to weak external demand for the Slovak Republic's main export products, such as cars and consumer electronics. The economy contracted by 4.7% in 2009 (Figure 1A).

Thanks to fiscal consolidation efforts and high economic growth over the past years, public finances improved and the Slovak Republic saw its budget deficit falling from 12% of GDP in 2000 to below 2% in 2007. However, the deficit increased sharply to 7.9% of GDP in 2009 when revenues dropped and fiscal stimulus packages were implemented (Figure 1B). Reflecting a widening budget deficit, gross debt also rose to around 40% of GDP in 2009 (Figure 1C), but still lower than the OECD average. The OECD projects that the economy will grow moderately in 2011 due to planned fiscal adjustments and somewhat weak external export demand.

Figure 1. **Key economic indicators**

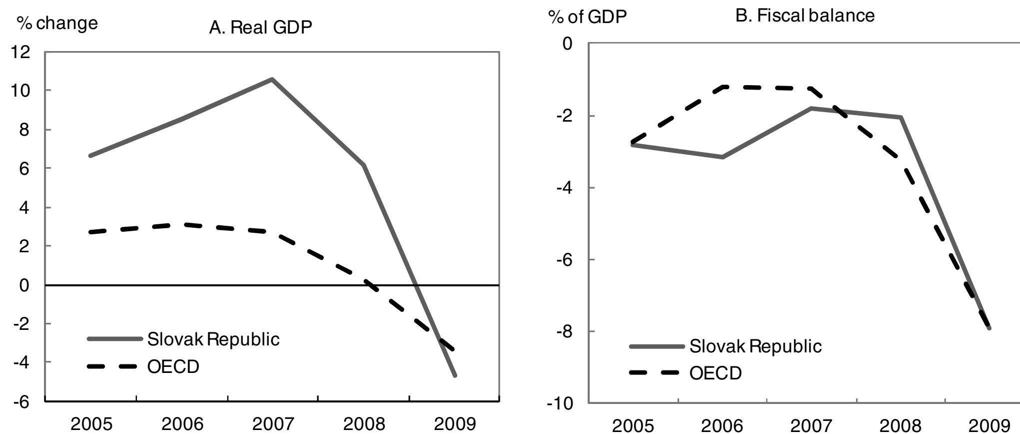
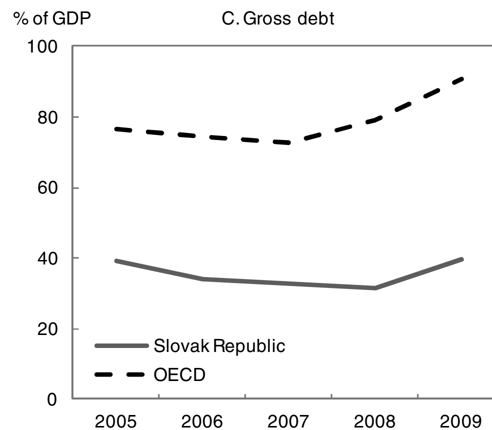


Figure 1. **Key economic indicators** *(cont'd)*



Notes: Fiscal balance and gross debt are general government financial balance and gross financial liabilities as a per cent of nominal GDP.

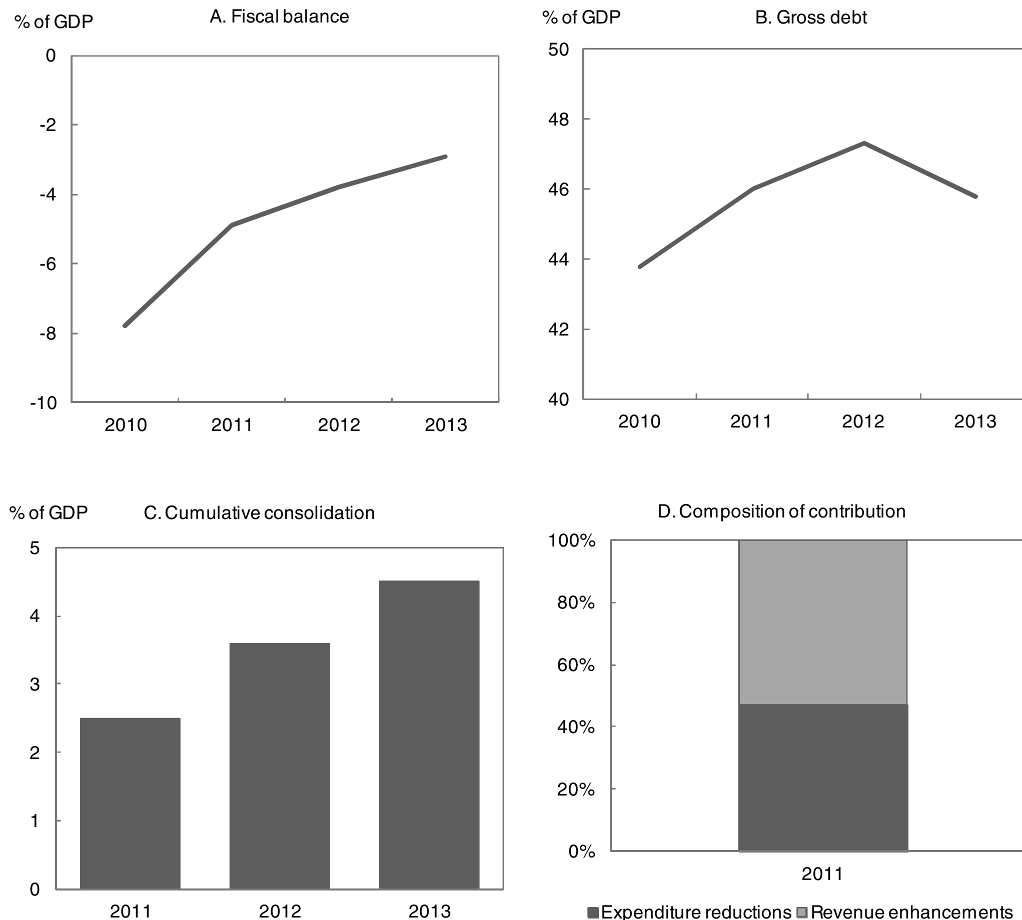
Source: OECD (2010), "OECD Economic Outlook No. 88", *OECD Economic Outlook: Statistics and Projections* (database), http://dx.doi.org/10.1787/data-00533-en.

2. The government's fiscal consolidation strategy

When the new Slovak government came into power in July 2010, it presented a Government Manifesto that emphasises the consolidation of public finances, creating new jobs and enhancing the long-term growth potential of the economy. In particular, the government set a goal of lowering the budget deficit to below 3% of GDP by 2013 (Figure 2A). The government also expects that gross debt will rise to 47.5% of GDP in 2012 and then stabilise around 45% (Figure 2B).

In order to fulfil the intention of the Government Manifesto of a sharp deficit reduction, the government established the 2011 budget aiming at a deficit below 5% of GDP in 2011. To achieve this goal, the budget includes austerity measures amounting to EUR 1.75 billion or 2.5% of GDP (Figure 2C). Some welfare and education expenditures, however, have been shielded from cuts in the consolidation plan. A roughly equal mix of expenditure reductions and revenue enhancement will contribute to consolidation efforts (Figure 2D).

Figure 2. **The government's planned fiscal adjustments**



Notes: Fiscal balance and gross debt are general government financial balance and gross financial liabilities on a Maastricht basis as a per cent of nominal GDP. Fiscal consolidation is cumulative consolidation as a per cent of GDP. The composition of the contribution to fiscal consolidation is expenditure reductions and revenue enhancements (total = 100%). OECD calculations.

Source: "OECD Fiscal Consolidation Survey 2010".

3. Major consolidation measures

On the expenditure side, the government is reducing wage costs and operating costs by 10%, amounting to 0.4% of GDP. Another substantial measure is to reduce public investment expenditures by 0.3% of GDP. The government is also strengthening revenues by increasing the VAT rate (0.27% of GDP) and non-tax revenues (0.3% of GDP). The base of social security contributions is broadened to bring extra revenues equal to 0.2% of GDP.

Table 1. **Major consolidation measures**

Millions EUR (% of GDP[1])

		2011
Expenditures		**715.2 (1.02)**
1. Operational measures		243.2 (0.35)
– Staff expenditures	10% cut in the state wage bill.[2]	119.0 (0.17)
– Operating expenditures	10% cut for operating costs of most government offices.	124.2 (0.18)
2. Programme measures		326.0 (0.47)
– Investment	Decrease in investment expenditure.	179.2 (0.26)
– Subsidies	Reduction of national subsidy for agriculture.	61.8 (0.09)
– Transfers	Health-care insurance payments for state policy holders.	85.0 (0.12)
3. Other initiatives		146.0 (0.21)
– Reserves	Decrease in reserves allocation.	17.4 (0.02)
– State funds	Decrease in expenditures.	128.6 (0.18)
Revenues		**799.7 (1.15)**
– VAT	Increasing the VAT tax rate from 19% to 20%.	185.5 (0.27)
– Income taxes	Broadening the base of income taxes.	71.3 (0.10)
– Social security contributions	Broadening the base of social security contributions.	149.2 (0.21)
– Excise duties	Increasing the excise on tobacco.	15.9 (0.02)
– Tax expenditures	Phasing out of exemptions for bio fuels, fuels used in agriculture and railway sectors, natural gas and coal.	103.7 (0.15)
– Tax on CO_2 emission permits	Temporary in 2011 and 2012.	75.0 (0.11)
– Non-tax revenues	Fees (highways, electricity, fuels), sale of CO_2 emission permits.	199.1 (0.29)

1. OECD calculations using OECD forecasts of nominal GDP for 2011.

2. Reduction of wage spending was tempered for policemen, firemen, and rescuers. Teachers and scientists of the Slovak Academy of Sciences were excluded from this reduction.

Source: “OECD Fiscal Consolidation Survey 2010”.

Table 2. **The government's fiscal consolidation plan**

% of GDP

Fiscal consolidation	2010	2011	2012	2013
Consolidation volume (cumulative)		2.5%	3.6%	4.5%
Total deficit(-)/ surplus(+)	-7.8%	-4.9%	-3.8%	-2.9%
Total level of debt	43.8%	46.0%	47.3%	45.8%
Fiscal consolidation by expenditure reductions and revenue enhancements (total = 100%)				
Expenditure reductions		56.0%		
Revenue enhancements		44.0%		

Source: "OECD Fiscal Consolidation Survey 2010".

Slovenia

1. Economic situation

Slovenia experienced a significant economic recession in 2009 with GDP contracting by 8.1%, followed by relatively modest recovery in the course of 2010. This contrasts considerably to favourable economic growth of around 5% on average in the years leading up to the crisis, significantly outpacing the OECD average (Figure 1A). Slovenia's fiscal position deteriorated substantially from an achieved balance in 2008 to a deficit of 5.8% of GDP in 2009 as a consequence of the economic crisis (Figure 1B).

Public sector debt measured 30% of GDP in 2008, rising to 44% in 2009 which is around half of the OECD average (Figure 1C). The deterioration is largely due to a cyclical fall in revenues and the cost of discretionary stimulus measures. However, the recovery in economic growth began late in 2009, underpinned by a rebound in exports.

The OECD projected the pace of growth to pick up further in 2010 and 2011 and gradually rebalance towards private domestic demand.

Figure 1. **Key economic indicators**

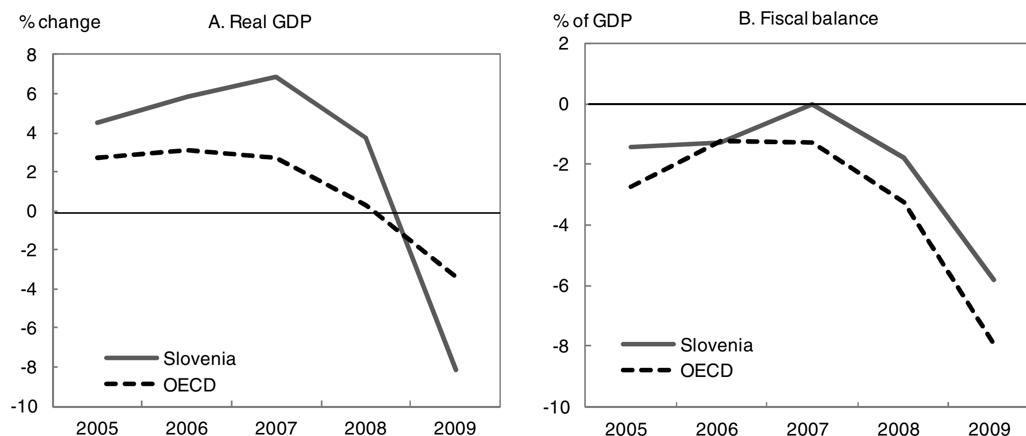
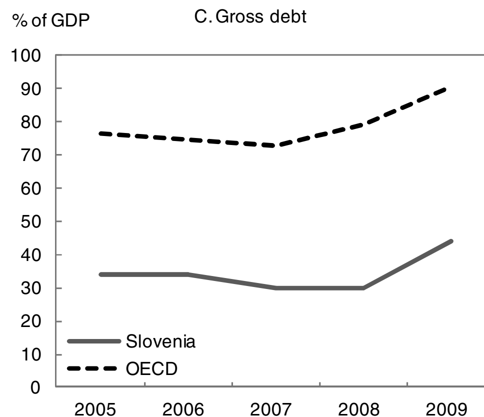


Figure 1. **Key economic indicators** *(cont'd)*



Notes: Fiscal balance and gross debt are general government financial balance and gross financial liabilities as a per cent of nominal GDP.

Source: OECD (2010), "OECD Economic Outlook No. 88", *OECD Economic Outlook: Statistics and Projections* (database), http://dx.doi.org/10.1787/data-00533-en.

2. The government's fiscal consolidation strategy

Slovenia's consolidation policy built on gradual withdrawal of the fiscal stimulus in 2010 and measures to improve the efficiency of public expenditures. In response to revenue shortfalls, the government adopted a supplementary budget in June 2010 which mainly reduced investments.

Currently envisaged fiscal consolidation aims at reducing the general government deficit below 3 % of GDP and at stabilising general government gross debt at 45% in 2013. Slovenia announced the following strategy to help meet the fiscal objectives: *i)* phasing-out of fiscal incentives and measures in support of the financial sector in 2010; *ii)* implementing an expenditure-driven fiscal consolidation. Longer term fiscal consolidation and potential growth will be underpinned through the implementation of a structural reform agenda for pensions and health.

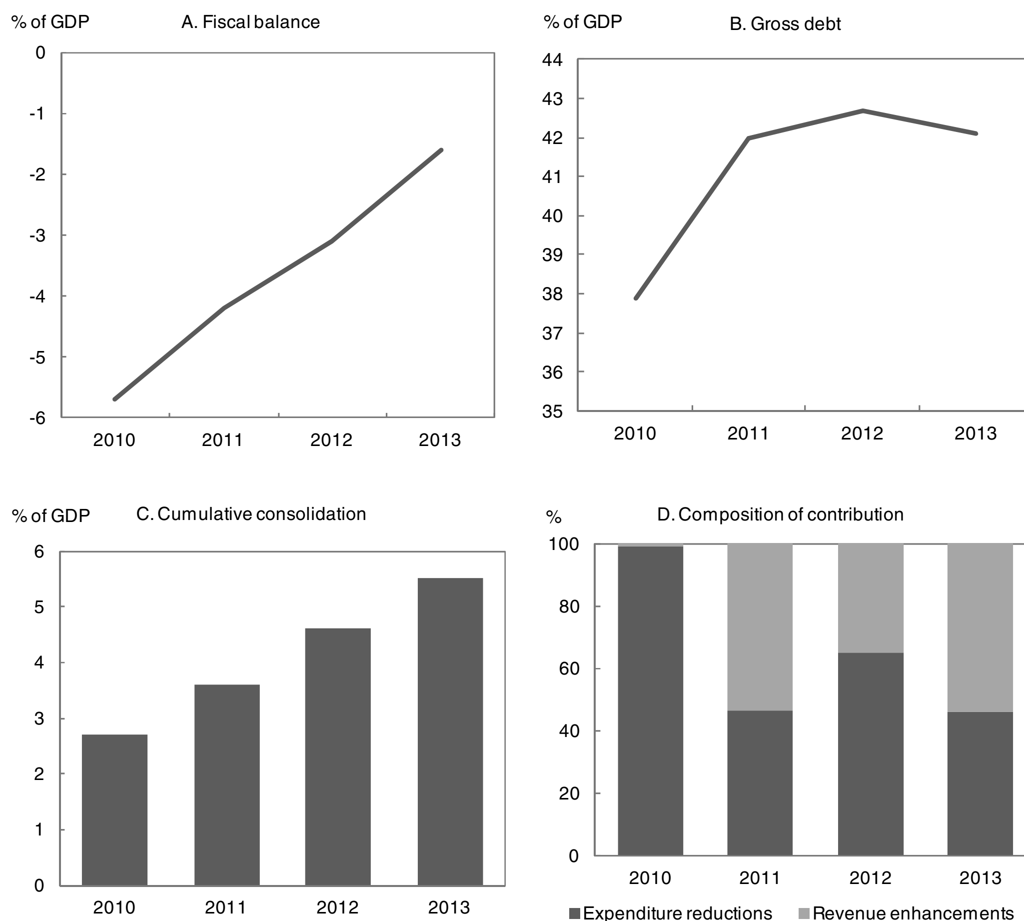
Slovenia's fiscal consolidation programme equalled 2.7% of GDP in 2010 excluding the VAT reduction. In addition, a cumulative 2.8% of GDP of measures are expected to be implemented from 2011 to 2013 (Figure 2C). In combination, these measures should see the budget deficit trough at around 5.7% of GDP in 2010 before narrowing to below 3% of GDP in 2013, helping government debt stabilise at around 45% of GDP (Figure 2A and 2B).

Measures to be shielded from savings during the phasing-out of fiscal stimulus include maintaining the subsidies for research and development activities and programmes aimed at providing jobs and training for unemployed.

The government adopted a fiscal rule capping expenditure increases at the rate of potential output, which should, along with the introduction of programme budgeting, help the consolidation process. The structure of public spending is based of national development priorities that focus on the: *i)* creation of new jobs and development of

knowledge; *ii)* promotion and setting up of innovative businesses; *iii)* improved employability, activity and qualifications of individuals; as well as *iv)* development-oriented transport and energy infrastructure. Key objectives of fiscal consolidation are: enhancing the efficiency of public sector administration, rationalisation of services provided, rationalising the distributive role of the state and reorienting expenditure towards development-oriented programmes. These objectives will be met by concrete policy actions which are currently under way according to the authorities. An important component of the fiscal consolidation strategy will be to enhance the absorption of EU funds to finance investment. Financing of domestic expenditure will then be replaced by EU financing to a greater extent.

Figure 2. **The government's planned fiscal adjustments**



Notes: Fiscal balance and gross debt are general government financial balance and gross financial liabilities on a Maastricht basis as a per cent of nominal GDP. Fiscal consolidation is cumulative consolidation as a per cent of GDP. The composition of the contribution to fiscal consolidation is expenditure reductions and revenue enhancements (total = 100%). OECD calculations.

Source: "OECD Fiscal Consolidation Survey 2010".

3. Major consolidation measures

Limiting public wage and consumption increases are the most important operational expenditure measures, giving a consolidation contribution of 0.8% of GDP in 2010. The government also had a goal of reducing public sector employment by 1% in 2010 and by the same amount in 2011. Pension reform and reduced investments are also important measures. Increased excise duties drive the revenue enhancements. A new tax information system is expected to enhance revenues by up to 0.8% of GDP in 2013.

Table 1. **Major consolidation measures**

Millions EUR (% of GDP[1])

		2010	2011	2012	2013
Expenditures		**879 (2.44)**	**1 039 (2.79)**	**1 287 (3.33)**	**1 457 (3.61)**
1. Operational measures		273 (0.76)	273 (0.73)	378 (0.98)	483 (1.20)
– Compensation of employees		202 (0.56)	202 (0.54)	277 (0.72)	352 (0.87)
	Wage limitation.	limited to 1.2% annually			
	Reduce the number of public employees in 2010 and 2011.	-1%	-1%		
– Intermediate consumption	(The public sector wage bill and intermediate consumption will be cut by -14%.)	71 (0.20)	71 (0.19)	101 (0.26)	131 (0.33)
2. Programme measures		606 (1.68)	765 (2.06)	908 (2.35)	973 (2.42)
– Pensions		74 (0.21)	112 (0.30)	162 (0.42)	212 (0.53)
– Social transfers		22 (0.06)	22 (0.06)	47 (0.12)	62 (0.15)
– Health	Reduce medicine prices. Restrictive policy on sick leave benefits and the amount of payments for extra time in health institutions.	n.a.	n.a.	n.a.	n.a.
– Investments	Reduced by	266 (0.74)	266 (0.71)	334 (0.86)	334 (0.83)
– Other expenditure	Reduced by	244 (0.68)	366 (0.98)	366 (0.95)	366 (0.91)
– Redefinition of standards	Redefining public service standards, reconsider the price of services and more use of user fees.	0.4% of GDP by 2013[2]			
Revenues		**6 (0.02)**	**189 (0.51)**	**322 (0.83)**	**521 (1.29)**
– VAT	Reduced	-100 (0.28)	-100 (0.27)	-100 (0.26)	-100 (0.25)
– Excise duties	Mineral oil and gas	40 (0.11)	56 (0.15)	56 (0.14)	56 (0.14)
	Alcohol	4 (0.01)	4 (0.01)	4 (0.01)	4 (0.01)
	Tobacco	21 (0.06)	45 (0.12)	71 (0.18)	86 (0.21)
	Electricity	21 (0.06)	141 (0.38)	141 (0.37)	141 (0.35)
– Motor vehicles	To limit possible tax evasions and introduce environmental criteria.	19 (0.05)	28 (0.07)	28 (0.07)	28 (0.07)
– Administrative	New tax information system.		15 (0.04)	122 (0.32)	306 (0.76)
– Real estate	A property tax is planned for implementation in 2011.		n.a.	n.a.	n.a.

1. OECD calculations using OECD forecasts of nominal GDP for 2010-13.
2. Not included in calculations.

Source: "OECD Fiscal Consolidation Survey 2010".

Pension reform

The Slovenian government and parliament adopted a comprehensive reform of the pension scheme by modernising the current scheme and establishing a new pension scheme from 2015. According to the government, the modernisation aims at implementing higher retirement age, more sustainable indexation formula and incentives for longer activity.

Table 2. **The government's fiscal consolidation plan**

% of GDP

Fiscal consolidation	2010	2011	2012	2013
Consolidation volume	2.7%	3.6%	4.6%	5.5%
Total deficit(-)/ surplus(+)	-5.7%	-4.2%	-3.1%	-1.6%
Total level of debt	37.9%	42%	42.7%	42.1%
Fiscal consolidation by expenditure reduction and revenue enhancement (total = 100%)				
Expenditure reductions	99.3%	46.6%	65.1%	46.1%
Revenue enhancements	0.7%	53.4%	34.9%	53.9%

Source: "OECD Fiscal Consolidation Survey 2010".

Spain

1. Economic situation

The Spanish economy contracted by 3.7% in 2009, as the residential property boom came to a halt and the global economy entered recession. This compares with economic growth rates in excess of 4% for the years ahead of the recession (Figure 1A).

The Spanish unemployment rate has risen to around 20%, housing prices have fallen by more than 20% on some measures, and regional banks are themselves facing consolidation. The OECD is forecasting the Spanish economy to return to positive growth in 2011 driven by external demand and to some extent private consumption. Spain's deficit has also seen a rapid deterioration due to the marked contraction in output and government revenues. Surpluses recorded as recently ago as 2007 have quickly turned to deficits, with the 2009 deficit exceeding 11% of GDP (Figure 1B).

Gross debt had been relatively contained in the years ahead of the economic crisis due to a prudent fiscal stance, but increased sharply from 2007 due to declining revenues, higher entitlement spending (Figure 1C).

Figure 1. **Key economic indicators**

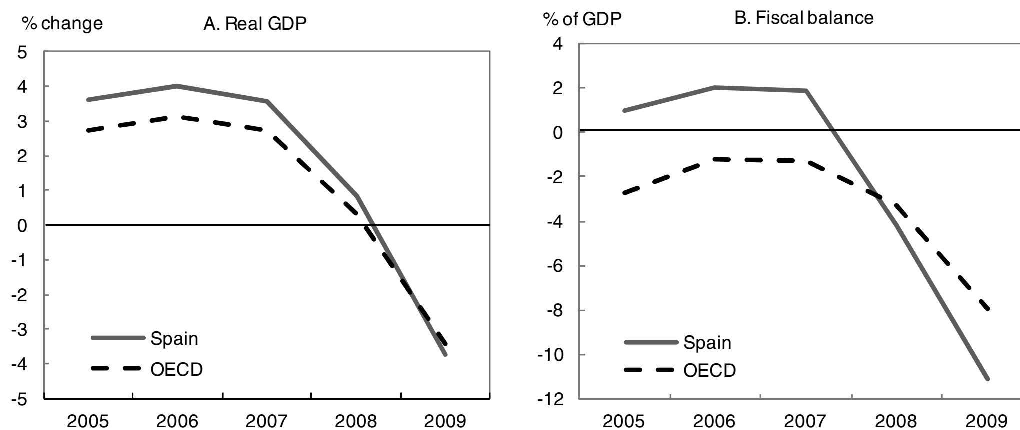
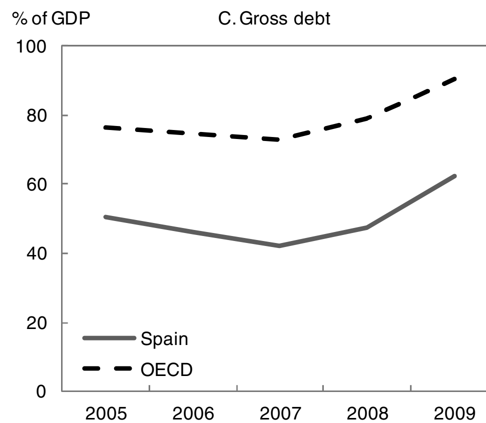


Figure 1. **Key economic indicators** *(cont'd)*



Notes: Fiscal balance and gross debt are general government financial balance and gross financial liabilities as a per cent of nominal GDP.

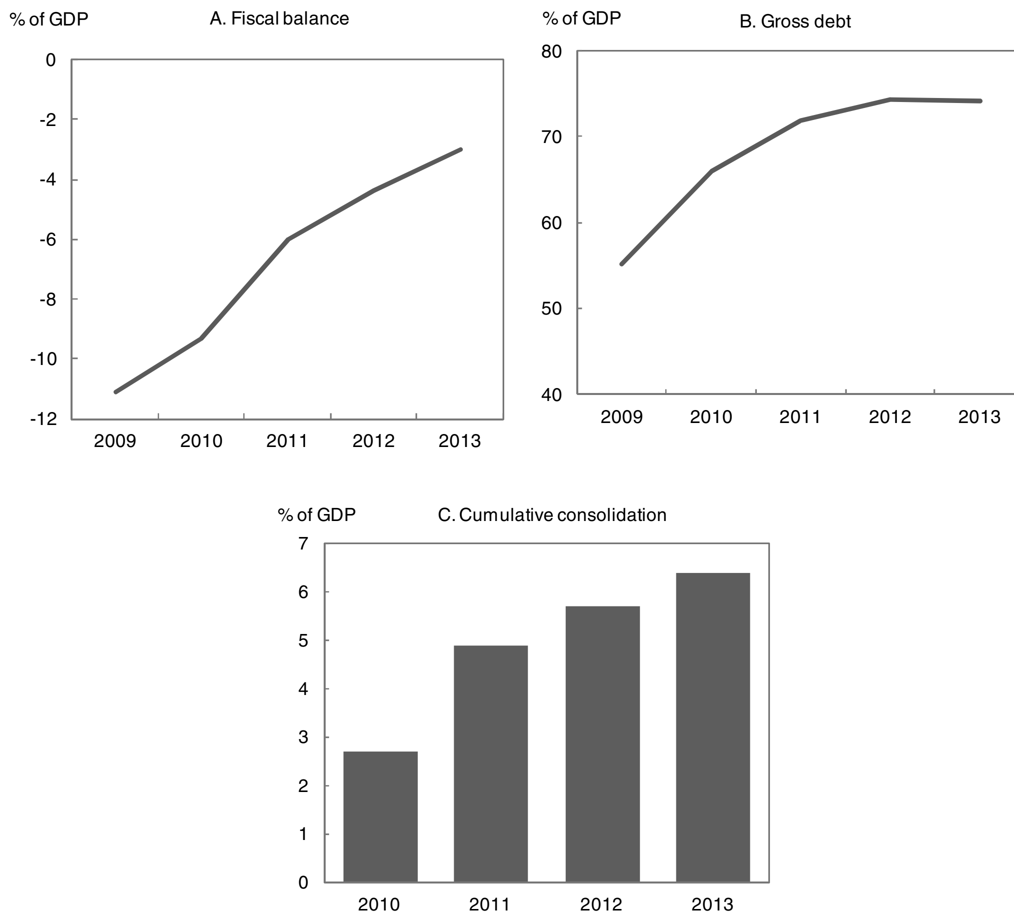
Source: OECD (2010), "OECD Economic Outlook No. 88", *OECD Economic Outlook: Statistics and Projections* (database), http://dx.doi.org/10.1787/data-00533-en.

2. The government's fiscal consolidation strategy

Spain is targeting a significant reduction in its general government deficit to 3% of GDP by 2013. The government has announced a cumulative fiscal consolidation effort of EUR 65 billion (or approximately 6.2% of GDP) for implementation in the four years to 2013. This figure includes the extraordinary measures adopted in May 2010. If required, the government has announced it is prepared to take additional measures to achieve its deficit targets.

Pressure from financial markets has seen consolidation plans front-loaded towards 2010 and 2011. The 2010 effort alone was worth 2.7% of GDP (Figure 2C). Consolidation plans are largely expenditure-based, and a framework agreement for the sustainability of public finances was approved by all levels of government (central, regional and local) in order to reinforce the commitment to fiscal consolidation. According to the government, Spain's 2009 deficit measuring 11.1% of GDP is projected to narrow to 3% by 2013 (Figure 2A) and gross debt is expected to peak around 74% of GDP in 2013 (Figure 2B).

Figure 2. **The government's planned fiscal adjustments**



Notes: Fiscal balance and gross debt are general government financial balance and gross financial liabilities on a Maastricht basis as a per cent of nominal GDP. Fiscal consolidation is cumulative consolidation as a per cent of GDP. OECD calculations.

Source: "OECD Fiscal Consolidation Survey 2010".

3. Major consolidation measures

Spain has started implementing significant expenditure cuts, including public sector wages and public infrastructure investment. In particular, public sector wages were cut 5% in 2010 and will be frozen in 2011. Public sector staffing in 2011-13 will be limited to 10% of the replacement rate with no new hiring of temporary personnel.

Given the extent of the fiscal gap, the government has also implemented revenue enhancement measures that include VAT increase, excise duties and higher top income tax rates. As for VAT, the standard VAT rate was increased from 16% to 18%, and the lower rate increased from 7% to 8% in July 2010. VAT hikes are expected to increase revenue by more than 1% of GDP in 2010-11.

Structural reform efforts are also being made to labour markets, the financial sector and the pensions system in an effort to improve long-term fiscal sustainability.

Table 1. **Major consolidation measures**

Millions EUR (% of GDP[1])

		Budgetary impact 2010-11
Expenditures		**13 850 (1.30)**
1. Operational measures		4 500 (0.42)
– Wage cuts and staffing	Public sector wages were cut 5% in 2010 and will be frozen in 2011. Public sector staffing in 2011-13 will be limited to 10% of the replacement rate with no new hiring of temporary personnel. These measures apply to all government levels.	4 500 (0.42)
2. Programme measures		9 350 (0.88)
– Entitlement spending	EUR 2 500 childbirth allowance eliminated from January 2011.	1 250 (0.12)
– Infrastructure	Public infrastructure investment will be cut between 2010 and 2011. In the following years, the infrastructure spending will be subject to the fulfilment of the annual budget target.	6 000 (0.56)
– Pension payments	Pension payments will be frozen in 2011 with further restrictions on partial retirements. The transitory regime of partial retirement will be eliminated.	n.a.
– Foreign aid	Foreign development aid will be cut in 2010 and 2011.	800 (0.07)
– Healthcare	Pharmacy costs will be reduced in 2010 and 2011.	1 300 (0.12)
Revenues		**(1.42)**
– Income tax rates	The 2011 budget introduced an increase in the top tax rate from 43% to 44% for taxpayers earning above EUR 120 000 (and from 43% to 45% for those earning above EUR 175 000).	170-200 (0.02)
– VAT	In July 2010 the standard VAT rate was increased from 16% to 18%, and the lower rate increased from 7% to 8% (the VAT rate on food, drink and prescription drugs was left unchanged).	0.7% of GDP in 2010 and 0.4% in 2011
– Excise taxes	Excise duties on tobacco, alcohol and fuel were raised in 2009. Moreover, in the last set of measures approved on 3 December 2010, excise duty on tobacco was increased again.	0.3% of GDP
– Investment income taxes	Capital income and interest income taxes were increased in 2010; and special capital gains tax exemptions used by the investment funds of Sicavs is to be abolished in 2011.	n.a.
– Tax expenditures	The EUR 400 income tax credit was removed. A reform in the personal income tax eliminating tax credits for new housing purchase as from 2011 except for low-income households.	n.a.

1. OECD calculations using OECD forecasts of nominal GDP for 2011.

Source: "OECD Fiscal Consolidation Survey 2010".

Pension reform

Pension reform options are under consideration in the *Pacto de Toledo* Parliamentary Commission. The government proposals include an increase of the statutory retirement age from 65 to 67 and parametric and operational measures to strengthen the link between contribution and benefit among other measures.

Table 2. **The government's fiscal consolidation plan**

% of GDP

Fiscal consolidation	2009	2010	2011	2012	2013
Consolidation measures (cumulative)		2.7%	4.9%	5.7%	6.4%
Total deficit/surplus	-11.1%	-9.3%	-6.0%	-4.4%	-3.0%
Total level of debt	55.2%	65.9%	71.9%	74.3%	74.1%

Notes: OECD estimates for volume of consolidation from the *OECD Economic Surveys: Spain 2010*. Deficit figures based on the government's June 2010 update. The gross debt path is based on figures from the January 2010 Stability and Growth Programme release.

Source: "OECD Fiscal Consolidation Survey 2010".

Sweden

1. Economic situation

Sweden's economic recovery has been strong in light of the severe recession experienced in 2008 and early 2009 (Figure 1A), with the government forecasting the economy to grow by 4.8% in 2010 and 3.7% in 2011 as foreign demand for Swedish exports picks up. Sweden benefited from a run of fiscal surpluses in the pre-crisis years.

The fiscal balance turned into only a small deficit in 2009 and remained significantly better than the OECD average (Figure 1B). Gross debt increased marginally during the recession and linger comfortably just above 50% of GDP in 2009 (Figure 1C).

Figure 1. **Key economic indicators**

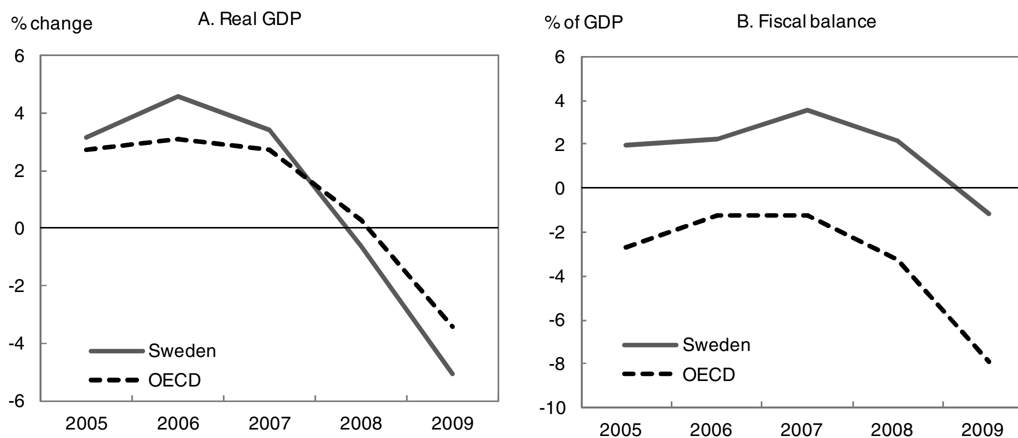
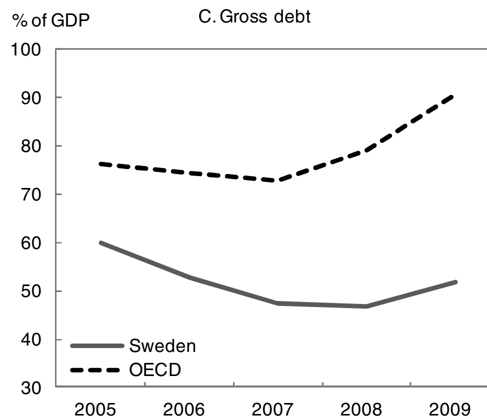


Figure 1. **Key economic indicators** *(cont'd)*



Notes: Fiscal balance and gross debt are general government financial balance and gross financial liabilities as a per cent of nominal GDP.

Source: OECD (2010), "OECD Economic Outlook No. 88", *OECD Economic Outlook: Statistics and Projections* (database), http://dx.doi.org/10.1787/data-00533-en.

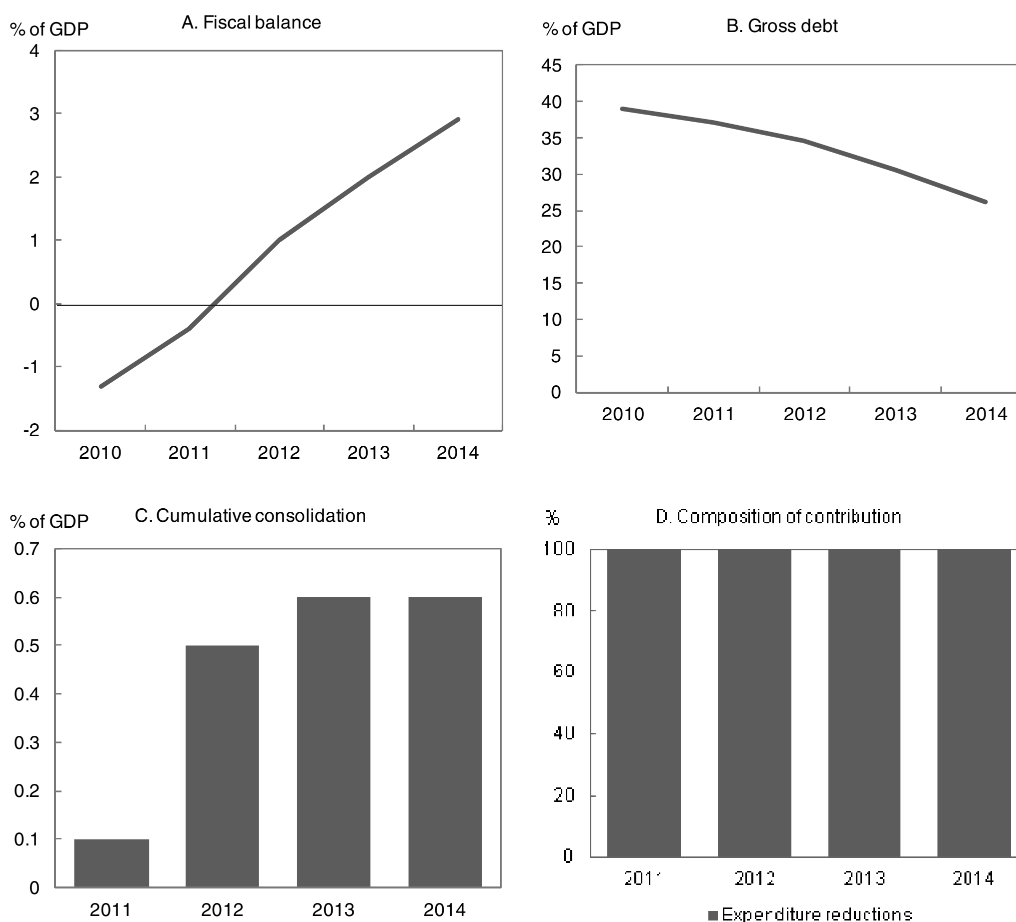
2. The government's fiscal consolidation strategy

Sweden introduced a fiscal rule in 2000 which targets a government surplus of 1% of GDP on average over the business cycle. A multi-annual expenditure ceiling for central government expenditures and a balanced budget rule for local government supports this target. A Fiscal Policy Council was established in 2007 to assess adherence to the surplus target and increase transparency and insight into fiscal policy. Recently, the government has introduced a temporary safety margin of 1% of GDP on the top of the formal 1% surplus target.

Sweden has a limited fiscal consolidation requirement due to the strength of its fiscal position. A well-defined national fiscal policy framework and a strong political commitment had allowed the country to maintain surpluses during the pre-crisis years.

In the sense that planned roll-back of temporary stimulus measures are considered to be part of fiscal consolidation efforts, the economy will face an effective fiscal tightening of up to 0.6% of GDP over each of the next four years (Figure 2C).[10] Effective consolidation is solely expenditure-based (Figure 2D). The government is projecting a 2010 budget deficit of 1.3% of GDP, which is expected to return to a surplus by 2012 (Figure 2A). General government debt is forecast to decline to 26% of GDP by 2014 (Figure 2B).

Figure 2. **The government's planned fiscal adjustments**



Notes: Fiscal balance and gross debt are general government financial balance and gross financial liabilities on a Maastricht basis as a per cent of nominal GDP. Fiscal consolidation is cumulative consolidation as a per cent of GDP. The composition of the contribution to fiscal consolidation is expenditure reductions (total = 100%). OECD calculations.

Source: "OECD Fiscal Consolidation Survey 2010".

3. Major consolidation measures

The roll-back of stimulus measures to local governments contributes the most in the consolidation plan. No revenue measures are envisaged.

Table 1. **Major consolidation measures**

SEK billion (% of GDP[1])

		Budgetary impact 2011-14
Expenditures		
2. Programme measures		
– Infrastructure	Roll-back of temporary infrastructure programmes.	2.4 (0.06)
– Labour market	Roll-back of temporary labour market measures.	3.7 (0.09)
– Education	Roll-back of temporary education measures.	2.8 (0.07)
3. Other initiatives		
– Local government	Roll-back of stimulus to local governments.	12.0 (0.31)

1. OECD calculations using OECD forecasts of nominal GDP for 2014.

Source: "OECD Fiscal Consolidation Survey 2010".

Table 2. **The government's fiscal consolidation plan**

% of GDP

Fiscal consolidation	2010	2011	2012	2013	2014
Consolidation measures (cumulative)		0.1%	0.5%	0.6%	0.6%
Total deficit/surplus	-1.3%	-0.4%	1.0%	2.0%	2.9%
Total level of debt	39.1%	37.1%	34.5%	30.7%	26.2%

Notes: Volume of consolidation based on the Budget Bill for 2011, and consolidation path based on figures in the Budget Bill for 2011 as per the Maastricht definition.

Source: "OECD Fiscal Consolidation Survey 2010".

Switzerland

1. Economic situation

Switzerland entered recession in 2009 with a relatively strong fiscal position. The extent of the economic contraction and accompanying deterioration in the fiscal balance were limited when compared to OECD averages (Figure 1A).

A fiscal surplus of 1.2% of GDP was recorded in 2009 (Figure 1B) with projected deficits not expected to exceed 1% of GDP over the next three years. Gross debt has declined over the past decade to measure 40% of GDP in 2009 (Figure 1C).

Switzerland's economic activity benefited from a recovery in trade, private investment and consumption in 2010. The OECD is forecasting economic growth to moderate to a rate closer to potential as the output gap closes.

Figure 1. **Key economic indicators**

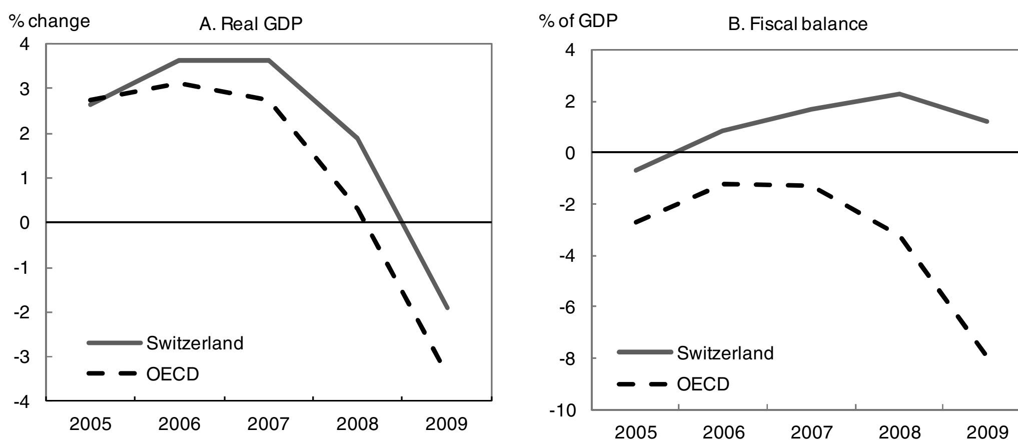
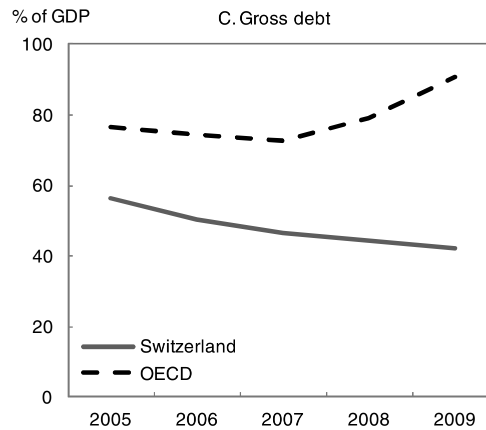


Figure 1. **Key economic indicators** *(cont'd)*



Notes: Fiscal balance and gross debt are general government financial balance and gross financial liabilities as a per cent of nominal GDP.

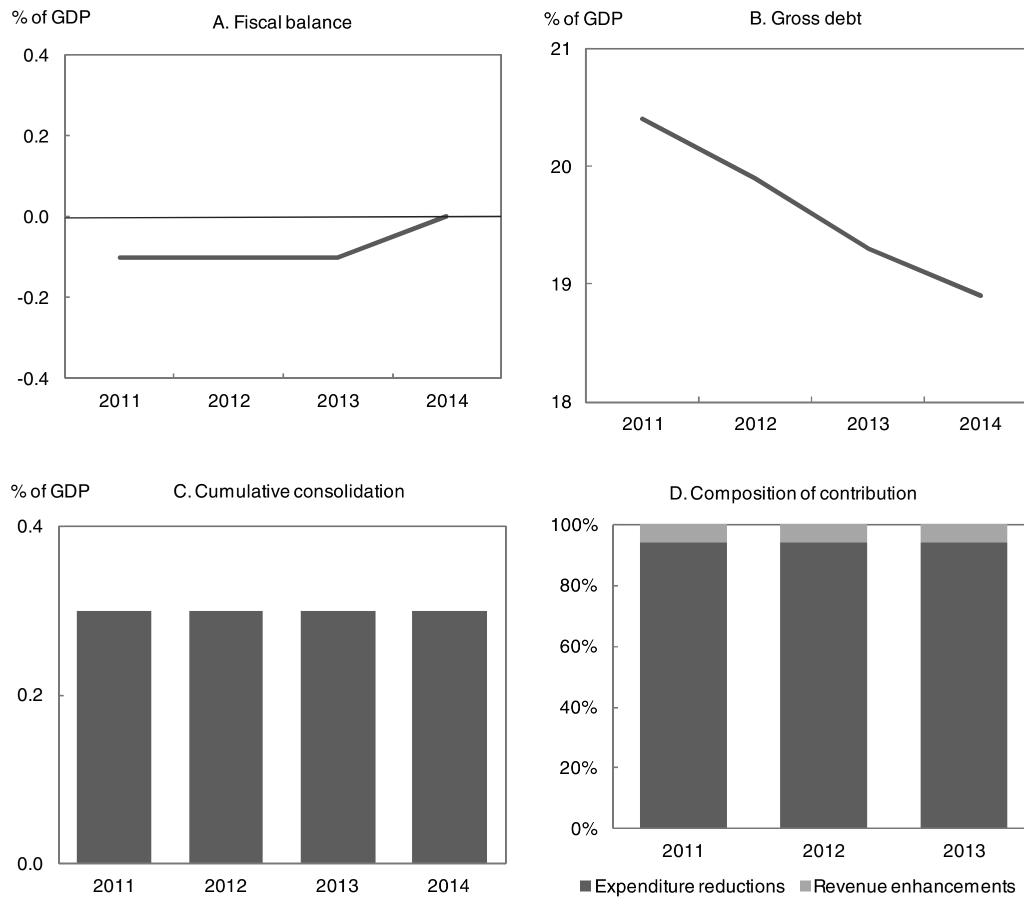
Source: OECD (2010), "OECD Economic Outlook No. 88", *OECD Economic Outlook: Statistics and Projections* (database), http://dx.doi.org/10.1787/data-00533-en.

2. The government's fiscal consolidation strategy

Switzerland employs a fiscal "debt-brake" rule that requires the federal government to balance its budget over the business cycle. The debt brake rule is a mechanism for overall management of the budget with the aim of preventing chronic deficits and rising debt levels. The rule was constitutionally enshrined in December 2001; it sets a total expenditure ceiling which must not surpass cyclically adjusted revenues. Discrepancies between actual expenditure and the ceiling (due to errors in the estimation of future revenues or a breach of the rule) are booked in a compensation account. If the cumulated deficit on this account exceeds 6% of expenditures (~0.6% of GDP), the authorities have to reduce the balance to below 6% within three years. An exemption clause for exceptional situations (natural disasters, severe recessions) allows for the provision of extraordinary expenditures. Since 2010 the so-called "debt-brake extension" is applied which stipulates that also extraordinary expenditures must be compensated for. In this way, undue use of the exemption clause should be prevented.

Switzerland has a solid fiscal position with a limited need for fiscal consolidation in the short term. However, in order to meet the requirement for a structurally balanced budget at the federal level, a consolidation effort of 0.3% of GDP is planned from 2011 to 2013 (Figure 2C). A majority of savings is expected to come through spending restraint, and should lead to a stabilisation of federal government spending relative to GDP to generate a lasting consolidation effort (Figure 2D). Deficits are not expected to exceed 1% of GDP in the next few years with fiscal balance expected to be restored within the forecast horizon (Figure 2A). Gross debt (central government) is expected to decline below 20% of GDP (Figure 2B).

Figure 2. **The government's planned fiscal adjustments (central government)**



Notes: Fiscal balance and gross debt are general government financial balance and gross financial liabilities on a Maastricht basis as a per cent of nominal GDP. Fiscal consolidation is cumulative consolidation as a per cent of GDP. The composition of the contribution to fiscal consolidation is expenditure reductions and revenue enhancements (total = 100%). OECD calculations.

Source: "OECD Fiscal Consolidation Survey 2010".

3. Major fiscal consolidation measures (central government)

A majority of savings is expected to come through spending restraint, which should lead to a stabilisation of government spending relative to GDP. Adjustment of budget ceilings to account for lower actual inflation than expected and reduced debt servicing costs should provide for effective consolidation.

Table 1. **Major consolidation measures**

Millions CHF (% of GDP[1])

		2011
Expenditures		**1 696 (0.30)**
1. Operational measures		140 (0.02)
– Government administration	Operating expenditure savings on staff, IT and consulting will be cut back by 2.4% on average. In addition, the federal government is carrying out a spending review programme to optimise the structure and assure sustainability of budget.	140 (0.02)
2. Programme measures		443 (0.08)
– Education and research	Cutbacks.	10 (0.0)
– Social welfare	Reduced insurance contributions due to earlier reforms.	144 (0.03)
– Defence	Delays in acquisitions.	49 (0.01)
– Agriculture		60 (0.01)
– Investment spending	Investment spending will be cut by roughly CHF 180 million to compensate for investment projects that have been brought forward as part of the fiscal stimulus measures in 2009.	180 (0.03)
3. Other initiatives		1 113 (0.20)
– Budget ceiling adjustment	Adjustment of budget ceilings to actual inflation.	383 (0.07)
– Debt servicing cost adjustment	A reduced future interest burden provides effective fiscal consolation in light of the strong debt reduction in past years, and low interest rates.	730 (0.13)
Revenues		**62 (0.01)**
– Tobacco excise	A higher marginal tax rate on tobacco.	62 (0.01)

1. OECD calculations using OECD forecasts of nominal GDP for 2011.

Source: "OECD Fiscal Consolidation Survey 2010".

Table 2. **The government's fiscal consolidation plan (central government)**

% of GDP

Fiscal consolidation	2011	2012	2013	2014
Consolidation measures (cumulative)	0.3%	0.3%	0.3%	0.3%
Total deficit/surplus	-0.1%	-0.1%	-0.1%	0.0%
Total level of debt	20.4%	19.9%	19.3%	18.9%
Fiscal consolidation by expenditure reductions and revenue enhancements (total = 100%)				
Expenditure reductions	94%	94%	94%	
Revenue enhancements	6%	6%	6%	

Source: "OECD Fiscal Consolidation Survey 2010".

Turkey

1. Economic situation

The Turkish economy has undergone a decade of reform including a move towards a more disciplined fiscal framework. Economic growth was well in excess of the OECD average in the years before the economic crisis. GDP then contracted by 4.8% in 2009 (Figure 1A).

The government deficit and debt levels have outperformed the OECD average over the past five years (Figures 1B and 1C), except for a somewhat higher deficit in 2007.

Turkey's economic recovery began in the last quarter of 2009 and remained strong during 2010. The OECD projects real GDP growth to remain above 5% in 2011 and 2012 supported by strength in exports, consumption and investment.

Figure 1. **Key economic indicators**

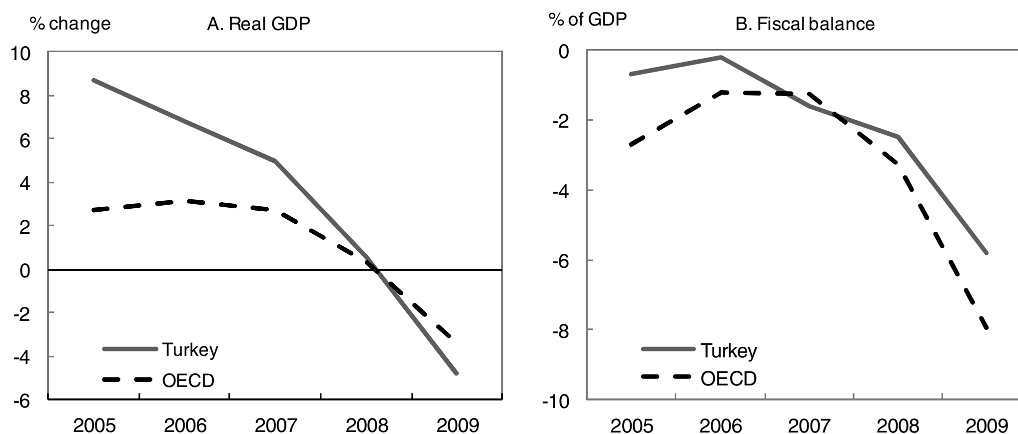
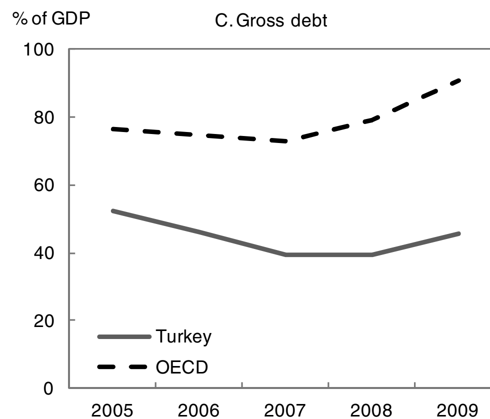


Figure 1. **Key economic indicators** *(cont'd)*



Note: Fiscal balance and gross debt figures are provided by Turkish authorities for the *OECD Economic Survey*.

Sources: OECD (2010), "OECD Economic Outlook No. 88", *OECD Economic Outlook: Statistics and Projections* (database), http://dx.doi.org/10.1787/data-00533-en; OECD (2010), *OECD Economic Surveys: Turkey 2010*, OECD Publishing, Paris.

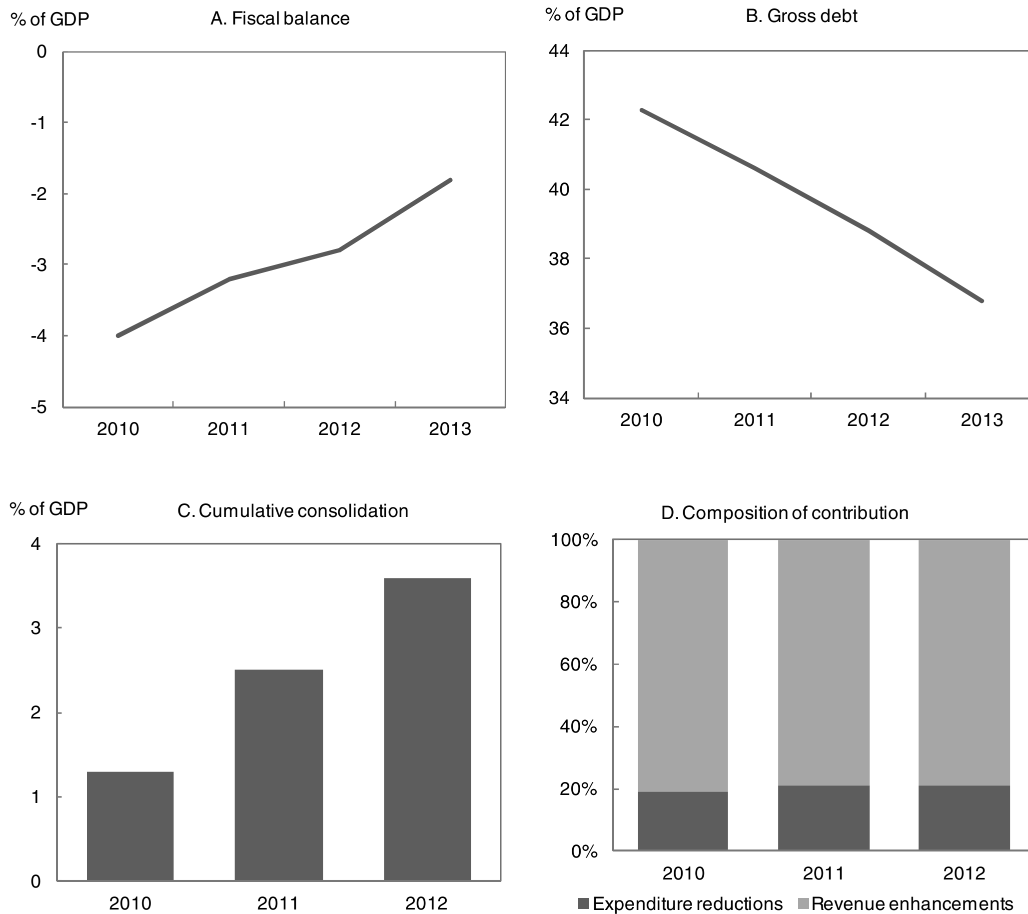
2. The government's fiscal consolidation strategy

A medium-term programme for fiscal reform was published in October 2010 aimed at improving the fiscal situation over the medium term. Plans of introducing a new fiscal rule have been postponed. Turkey's consolidation strategy targets several revenue-enhancement measures, and growth in government expenditures below the rate of nominal GDP growth.

Decade long reforms have limited the need for further fiscal consolidation following the short-lived recession. However, spending policy changes have been announced in an effort to control the cost of healthcare, public sector wages and infrastructure. In addition, revenues will benefit from an increase in excise taxes, the fight against the informal economy and the planned broadening of the tax base. Consolidation measures sum to a cumulative 3.6% of GDP over the next three years (Figure 2C) with revenue enhancements to contribute around 80% of projected savings (Figure 2D).

An updated medium-term economic programme for 2011-13 was announced in October 2010. This programme sets a deficit target of 1.8% of GDP in 2013 (Figure 2A). General government debt is expected to decline gradually from 42.3% in 2010 (Figure 2B).

Figure 2. **The government's planned fiscal adjustments**



Notes: Fiscal balance and gross debt are general government financial balance and gross financial liabilities as a per cent of nominal GDP. Fiscal consolidation is cumulative consolidation as a per cent of GDP. The composition of the contribution to fiscal consolidation is expenditure reductions and revenue enhancements (total = 100%). OECD calculations.

Source: "OECD Fiscal Consolidation Survey 2010".

3. Major consolidation measures

Turkey has announced spending policies that address both prudent public sector wage increases and cost savings to healthcare, public investment, and public consumption. Each of these measures will yield savings of roughly 0.2% of GDP.

Most of fiscal adjustment will take place on the revenue side since a wide range of increase in excise duties and fees has been announced. Extra excise duties on tobacco and fuel will increase revenue by almost 2% of GDP in 2010-12.

Table 1. **Major consolidation measures**

Billions TRL (% of GDP[1])

		Budgetary impact 2010-12
Expenditures		**8.7 (0.62)**
1. Operational measures		3.0 (0.22)
– Public administration	Policies have been announced that address prudent public sector wage increases.	n.a.
– Public consumption	Cost of purchasing goods and services (excluding health care and family medicine) was frozen in 2010, and is to increase at the rate of the deflator in 2011 and 2012.	3.0 (0.22)
2. Programme measures		5.7 (0.4)
– Investment expenditures	Investment expenditures are to increase by the same as the growth rate in 2010 and at growth plus the deflator rate in 2011 and 2012 (excluding transfers from unemployment insurance fund).	2.6 (0.19)
– Health	Decreasing the generic/original medicine price margin from 80% to 66%.	2.9 (0.21)
Revenues		**34.0 (2.47)**
– Excise duties on tobacco and fuel	Increase to excise duties on tobacco, diesel, gasoline and LPG.	27.2 (1.98)
– Other excise duties and fees	Increases to taxes on alcohol, stamp duty, mobile phones and bank branch fees.	6.8 (0.49)

1. OECD calculations using OECD forecasts of nominal GDP for 2012.

Source: "OECD Fiscal Consolidation Survey 2010".

4. Institutional reforms

Turkey's planned fiscal rule remains at the draft law stage, but would target an average budget deficit (general government deficit) of 1% of GDP over the cycle.

Table 2. **The government's fiscal consolidation plan**

% of GDP

Fiscal consolidation	2010	2011	2012	2013
Consolidation measures (cumulative)	1.3%	2.5%	3.6%	
Total deficit/surplus	-4%	-3.2%	-2.8%	-1.8%
Total level of debt	42.3%	40.6%	38.8%	36.8%
Fiscal consolidation by expenditure reductions and revenue enhancements (total = 100%)				
Expenditure reductions	19%	21%	21%	
Revenue enhancements	81%	79%	79%	

Notes: The total deficit figures exclude privatisation revenues. Total level of debt is EU-defined general government nominal debt stock.

Source: "OECD Fiscal Consolidation Survey 2010".

United Kingdom

1. Economic situation

The United Kingdom entered the recession with one of the largest structural deficits in the OECD and rising public-sector debt. The general government deficit widened to 11% of GDP in 2009, the United Kingdom's largest-ever peacetime deficit while GDP plunged by 5% the same year (Figures 1A and 1B). Public borrowing and debt rose sharply in 2009, mainly in response to a slump in unsustainable revenue streams from the financial and housing sectors (Figure 1C).

In the decade prior to the economic crisis, economic growth was driven by unsustainable private and public sector debt accumulation. The substantial but necessary planned fiscal tightening and weak real income growth created headwinds while the OECD projects growth to remain subdued in 2011.

The OECD expects the recovery will gain more momentum in 2012 when exports are projected to further increase and business investment to grow more robustly.

Figure 1. **Key economic indicators**

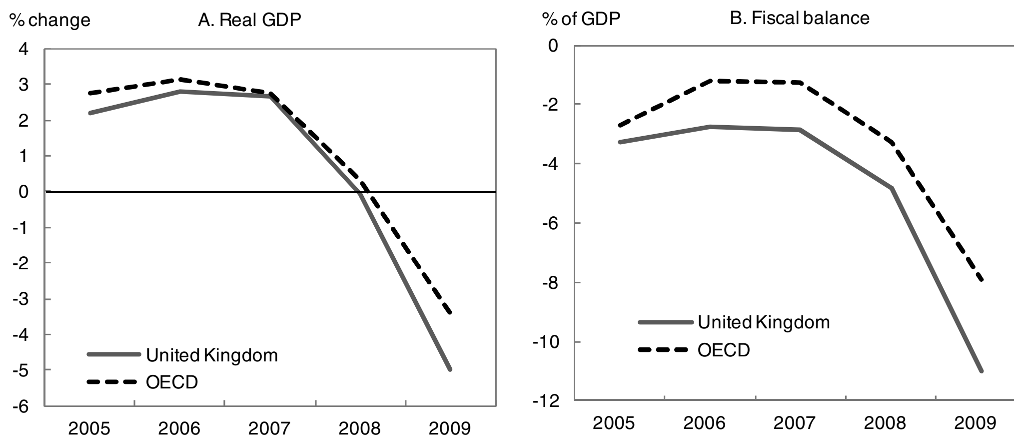
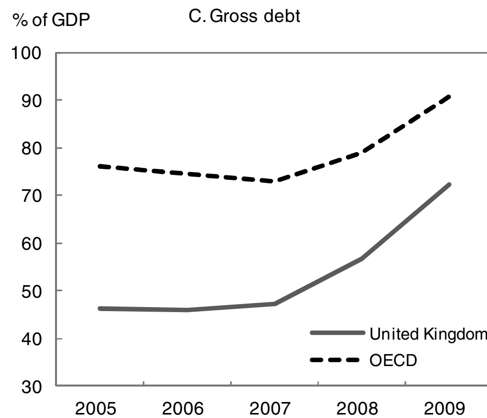


Figure 1. **Key economic indicators** *(cont'd)*



Notes: Fiscal balance and gross debt are general government financial balance and gross financial liabilities as a per cent of nominal GDP.

Source: OECD (2010), "OECD Economic Outlook No. 88", *OECD Economic Outlook: Statistics and Projections* (database), http://dx.doi.org/10.1787/data-00533-en.

2. The government's fiscal strategy

The fiscal position inherited by the incoming government in May 2010 was dire. The newly created fiscal body the Office for Budget Responsibility (OBR) forecast in June 2010 that without further action to tackle the deficit, public sector net borrowing would remain at 4% of GDP in five years time, the structural deficit would be 2.8% of GDP in 2014-15 and debt would still be rising in 2014-15 to 74.4% of GDP. The government has therefore set:

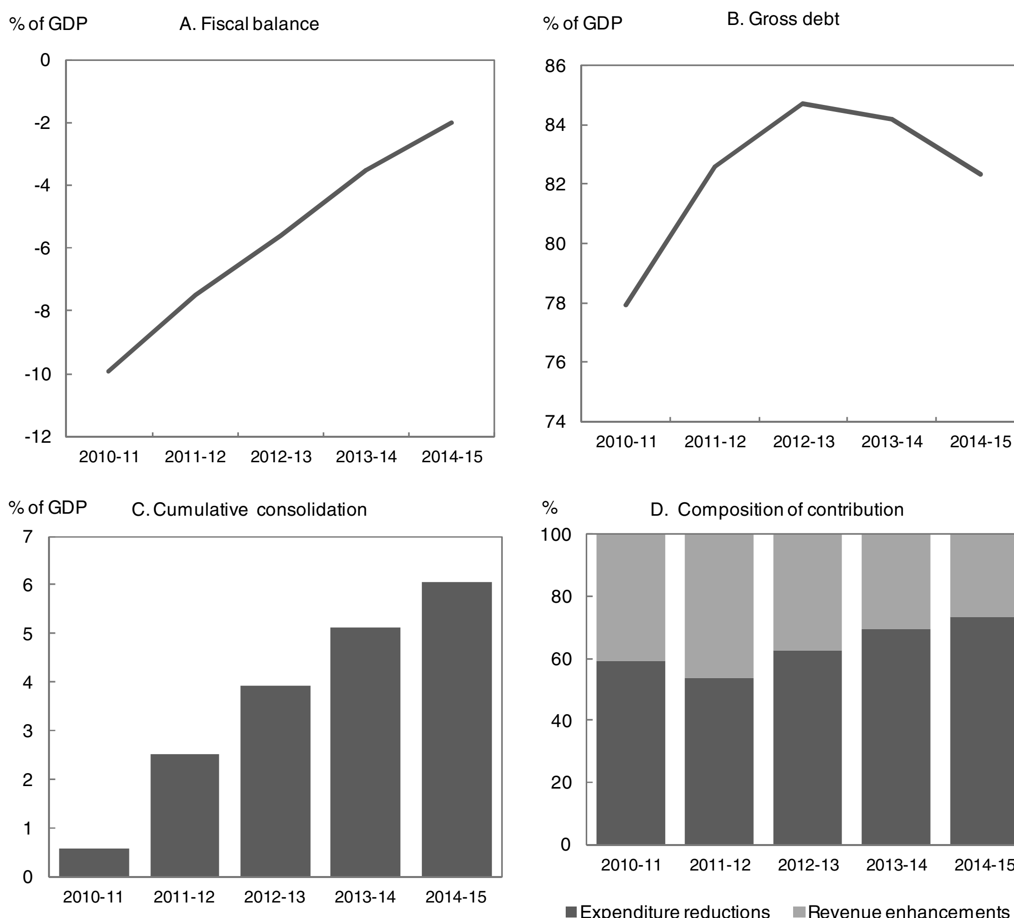
- a new, forward-looking fiscal mandate for its policies, to achieve cyclically-adjusted current balance by the end of the rolling, five-year forecast horizon;
- a supplementary target for net debt as a share of GDP to be falling at a fixed date of 2015-16;
- the bulk of the consolidation will come from spending reductions. By 2014-15, over 70% of total consolidation will be delivered through expenditure cuts.

Almost all areas of public spending will be affected by the consolidation with the exceptions of the complete ring-fencing of health and overseas aid. A particular focus has been given to reducing welfare costs and wasteful spending. According to the authorities, the ambitious medium-term plan has significantly reduced fiscal risks and should support growth in the longer term.

The fiscal consolidation plan, which includes some consolidation plans from the previous government, represents a total consolidation of GBP 111 billion by 2014-15, of which GBP 81 billion comes from spending reductions and GBP 29 billion from net tax increases. The consolidation plan eliminates the structural current deficit over the period and reaches an actual deficit of around 2% in 2014-15 (Figure 2A). The authorities' plan enables public spending to decrease as a per cent of GDP to the level seen in 2006-07 and return to the 2008-09 level in real terms. The gross debt ratio to GDP is expected to decrease from 2012-13 (Figure 2B). A front-loaded consolidation is envisaged, with the

largest adjustment in 2011-12, and totalling 6.1% of GDP by 2014-15 (Figure 2C). The expenditure share of the consolidation ranges from 54% in 2012 to 74% in 2014-15 (Figure 2D), according to OECD calculations.

Figure 2. **The government's planned fiscal adjustments**



Notes: Fiscal balance and debt is general government net lending and debt on a Maastricht basis as a per cent of nominal GDP. The budget figures relate to financial years. Fiscal consolidation is cumulative consolidation as a per cent of GDP. The composition of the contribution to fiscal consolidation is expenditure reductions and revenue enhancements (total = 100%). OECD calculations.

Sources: "OECD Fiscal Consolidation Survey 2010"; Budget 2010; Spending Review 2010; Office for Budget Responsibility (2010), "Economic and Fiscal Outlook".

3. Major consolidation measures

The departments (ministries) total programme and operational budgets will be cut in the range of 3.4% to 51% with an average cut of 8.3% over four years. In particular, operational budgets will be reduced by an average of 34%. Departmental capital budgets are to be reduced by 29% over the same period. A total of 330 000 public sector jobs are projected to be cut. A two-year wage freeze and efficiency measures provide savings of more than 0.5% of GDP by 2014. The most important revenue measure is the increase in the standard VAT rate from 17.5% to 20%. Announced revenue measures will amount to around 1.3% of GDP in 2014. In addition, more user fees will be used, e.g. by increasing

rail fares, and a pupil premium will be introduced and assigned to schools to support disadvantaged children.

Table 1. **Major consolidation measures**[1]

Millions GBP (% of GDP[2])

		2011-12	2012-13	2013-14	2014-15
Expenditures					**(1.15)**
1. Operational measures					(0.54)
– Operational budgets	All departments' administrative budgets (including arm's-length bodies' budgets) will be cut in real terms (by 2014).				33% to 42%
– Wages	Two-year wage freeze in public sector pay (savings by 2014).				3.3 billion (0.19 by 2014)
– Staffing	330 000 public sector jobs cut.				n.a.
– Operational expenditure	Efficiency savings.				6 billion (0.35 by 2014)
2. Programme measures		(0.03)	(0.16)	(0.36)	(0.40)
– Programme budgets	Departments' programme (and operational) budgets will be cut in real terms.				from 3.4% to 51% average cut is 8.3%
– Employment	Contributory employment and support allowance: time limit for those in the Work Related Activity Group to one year.		1 025 (0.07)	1 530 (0.09)	2 010 (0.12)
	Working tax credit: freeze in the basic and 30-hour elements for three years from 2011-12.	195 (0.01)	415 (0.03)	575 (0.04)	625 (0.04)
– Housing	Total household benefit payments capped on the basis of average take-home pay for working households.			225 (0.01)	270 (0.02)
	Disability living allowance: remove mobility component for claimants in residential care.		60	130 (0.01)	135 (0.01)
– Savings credit	Savings credit: freeze maximum award for four years from 2011-12.	165 (0.01)	215 (0.01)	260 (0.02)	330 (0.02)
– Council tax	Council tax benefit: 10% reduction in expenditure and localisation.	0	0	485 (0.03)	490 (0.03)
– Child benefits	Child benefit: remove from families with a higher tax rate from January 2013.	0	590 (0.04)	2 420 (0.15)	2 500 (0.15)
	Child tax credit: increase the child element by GBP 30 in 2011 and GBP 50 in 2012.	-190 (0.01)	-510 (0.03)	-545 (0.03)	-560 (0.03)
	Working tax credit: increase working hour requirement for couples with children to 24 hours.	0	380 (0.02)	385 (0.02)	390 (0.02)
	Working tax credit: reduce payable costs through childcare element from 80% to 70% restoring 2006 rate.	270 (0.02)	320 (0.02)	350 (0.02)	385 (0.02)
	Child and Working Tax Credits: use real-time information.	0	0	0	300 (0.02)
Selected reductions					
– Defence	Budget cut.				-8%
– Foreign Office	Budget cut.				-25%
– Transport	Subsidies to bus companies.				-20%
– Justice	Changing criminal sentencing to stop the rise in UK prison population.				n.a.
– BBC	License fee frozen for next six years.				

Table 1. **Major consolidation measures**[1] *(cont'd)*

Millions GBP (% of GDP[2])

		2011-12	2012-13	2013-14	2014-15
3. Other Initiatives			(0.1)	(0.18)	(0.21)
	Public sector pensions: increase in employee contribution rates.	0	160 (0.01)	1 270 (0.08)	1 760 (0.1)
	Renewable Heat Incentive: efficiency savings.	5	15	45	105 (0.01)
	Carbon Reduction Commitment: no recycling of revenues.	715 (0.05)	730 (0.05)	995 (0.06)	1 020 (0.06)
	Public Works Loan Board: interest rate increase.	150 (0.01)	310 (0.02)	380 (0.02)	450 (0.03)
	TfL Metronet: replace borrowing with central government grant.	325 (0.02)	300 (0.02)	200 (0.01)	185 (0.01)
Revenues					**(1.45)**
– VAT	The standard rate will increase from 17.5% to 20%.				13.5 billion (annually) (0.79 of GDP in 2014)
– Insurance Premium Tax	The higher rate will increase from 17.5% to 20%, while the standard rate will increase from 5% to 6%. This will raise a year by 2014-15.				0.5 billion (annually) (0.03 of GDP in 2014)
– Other	The net effect of detailed tax measures announced in June budget.				8 billion (annually) (0.47 of GDP in 2014)
– Capital tax	To be increased.	n.a.	n.a.	n.a.	n.a.
– Personal allowance	To be increased.	n.a.	n.a.	n.a.	n.a.
– Bank levy	To be introduced.	n.a.	n.a.	n.a.	n.a.
– Business taxes	To be reformed and rebalanced.	n.a.	n.a.	n.a.	n.a.

1. Measures are explained in more detail in Spending Review 2010.

2. OECD calculations using OECD forecasts of nominal GDP for 2011-14.

Source: "OECD Fiscal Consolidation Survey 2010".

Pension reform

The state pension age for men and women will increase to 66 by 2020.

4. Institutional reforms

The government established the Office for Budget Responsibility (OBR) in May 2010. The purpose of establishing the OBR was to improve the independence, transparency and credibility of the official economic and fiscal forecast on which the government bases its fiscal policy.

The authorities believe there are two aspects of the existing budget system that weaken spending control. First, since mandatory spending is not subject to firm cash limits, departments do not have the same incentives to manage it as they have with discretionary spending. Second, the end-year flexibility (EYF) system which allows departments to carry forward unspent budget provisions into future years to discourage wasteful end-year spending has, in practice, led to accumulated stocks of around GBP 20 billion that would further increase the deficit if they were spent. To strengthen the spending framework, the government is taking action to: improve incentives to

control mandatory spending, with further details to be announced in budget 2011; abolish the EYF scheme at the end of 2010 or beginning of 2011, including all accumulated stocks, and replace it with a new system from 2011-12; and extend operational budgets to cover arm's-length bodies in order to drive down the costs of administration.

Table 2. **The government's fiscal consolidation plan**

% of GDP

Fiscal consolidation	2010-11	2011-12	2012-13	2013-14	2014-15
Consolidation volume (cumulative)	0.6%	2.5%	4.0%	5.2%	6.1%
Total deficit(-)/ surplus(+)	-9.9%	-7.5%	-5.6%	-3.5%	-2.0%
Total level of debt	77.9%	82.6%	84.7%	84.2%	82.3%
Fiscal consolidation by expenditure reductions and revenue enhancements (total = 100%)					
Expenditure reductions	59.1%	53.8%	62.5%	69.2%	73.6%
Revenue enhancements	40.9%	46.2%	37.5%	30.8%	26.4%

Notes: OECD calculations. Fiscal balance and debt is general government net lending and debt on a Maastricht basis. The budget figures relate to financial years.

Sources: "OECD Fiscal Consolidation Survey 2010"; Budget 2010; Spending Review 2010; Office for Budget Responsibility (2010), "Economic and Fiscal Outlook".

Table 3. **Overview of fiscal consolidation**

Billions GBP

	2011-12	2012-13	2013-14	2014-15	2015-16
Spending cuts	5.2	21	40	61	81
Taxes	3.6	18	24	27	29
Total consolidation	8.8	39	64	88	111

Notes: Fiscal balance and debt is general government net lending and debt on a Maastricht basis. The budget figures relate to financial years. OECD calculations.

Sources: "OECD Fiscal Consolidation Survey 2010"; Budget 2010; Spending Review 2010; Office for Budget Responsibility (2010), "Economic and Fiscal Outlook".

United States

1. Economic situation

The United States is slowly recovering from a recession that saw the economy contract by 2.4% in 2009 (Figure 1A). Led by weakness in the property and financial sectors, the recession also contributed to a sharp rise in the unemployment rate, to 9.8%. In light of the economic slowdown and weak job creation, the United States is one of the few OECD countries that is favouring further fiscal stimulus for 2011. Despite the economy growing by 2.9% in the four quarters through September 2010, the OECD is projecting growth to remain moderate through 2011 and 2012 as households rebuild net worth and the unemployment rate declines at only a gradual pace.

Persistent budget deficits were recorded over the past five years, with the balance swiftly deteriorating as the economy entered recession in 2008 (Figure 1B). In 2010, the general government budget deficit was projected to reach 10.6% of GDP, significantly more than the OECD average. Gross debt also grew higher, reaching 80% of GDP in 2009, but remaining slightly below the OECD average (Figure 1C).

Figure 1. **Key economic indicators**

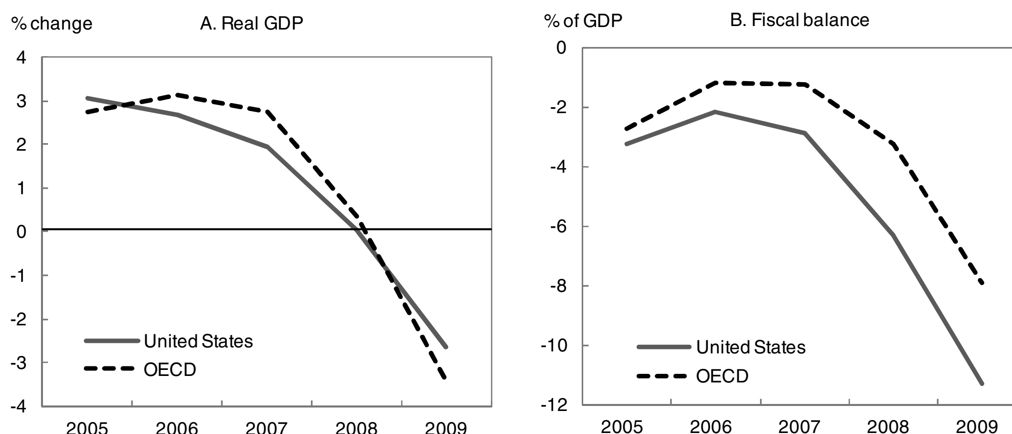
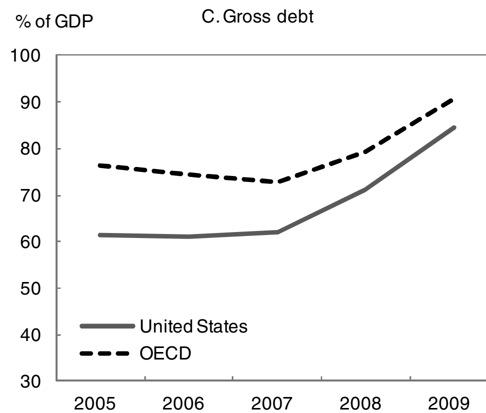


Figure 1. **Key economic indicators** *(cont'd)*



Notes: Fiscal balance and gross debt are general government financial balance and gross financial liabilities as a per cent of nominal GDP.

Source: OECD (2010), "OECD Economic Outlook No. 88", *OECD Economic Outlook: Statistics and Projections* (database), http://dx.doi.org/10.1787/data-00533-en.

2. The government's fiscal consolidation strategy

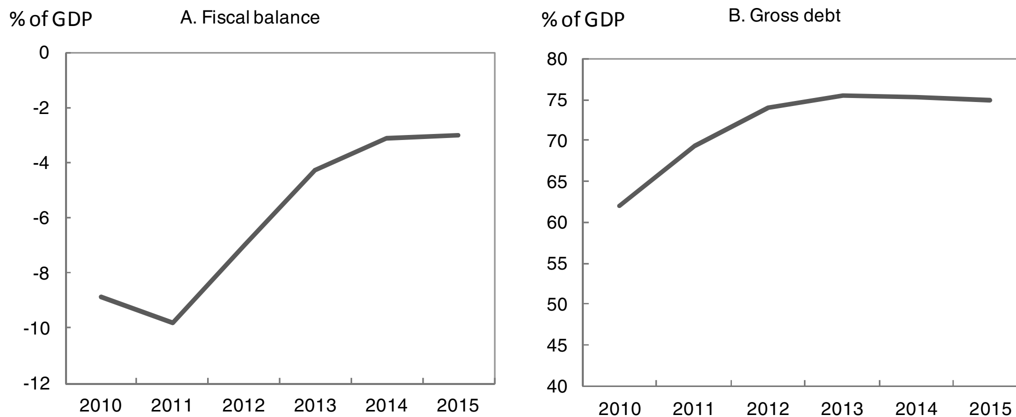
The United States economy benefited from earlier net fiscal stimulus in 2010, and further stimulus is expected in 2011. While it has yet to announce a definitive and detailed medium-term fiscal consolidation strategy, the United States administration has a goal of stabilising the federal debt-to-GDP ratio by 2015. The National Commission on Fiscal Responsibility and Reform released a set of policy choices December 2010 that would balance the United States budget, excluding interest payments on debt, by 2015 (see Section 4 for further details).

A number of consolidation initiatives were announced in 2010 including a three-year freeze in discretionary spending, a request to government agencies to trim budgets by at least 5%, and Congress legislated the "pay-as-you-go rule", which requires new spending to be budget neutral. Security and entitlement spending, which when combined with interest payments make up about 83% of government spending, have been shielded from the spending cuts.

Nevertheless, following the passage of the 2010 Tax Act, the federal budget deficit is now projected to rise to 9.8% of GDP in FY2011, before narrowing and stabilising at 3.0% by FY2014 under current law (the CBO baseline projection) (Figure 2A). The deficit contracts as economic growth returns, the 2010 Tax Act provisions terminate at the end of 2012, and fiscal stimulus and finance rescue measures are phased out. If many current policies were extended rather than allowed to expire as scheduled under current law (as is likely), the budget deficit would be more than double the level projected in 2014 under current law, and rising. Accordingly, additional consolidation measures will probably need to be implemented to meet the 2015 deficit target of 3% of GDP (including interest payments).

The independent Congressional Budget Office is projecting (under current law) public federal debt to rise from 62% of GDP in FY2010 to 75% by FY2013 and to remain at this level thereafter (Figure 2B). If various policies currently in place are extended instead of expiring, federal government debt would rise continuously, reaching almost 100% of GDP by 2021. Including state and local government liabilities, the OECD is projecting gross government debt to exceed 100% of GDP by 2012.

Figure 2. **The government's planned fiscal adjustments**



Notes: Fiscal balance is federal government financial balance as a per cent of nominal GDP. The debt measure is "federal debt held by the public" as a per cent of nominal GDP as reported in the United States federal budget.

Sources: "OECD Fiscal Consolidation Survey 2010"; United States Congressional Budget Office (2011), *The Budget and Economic Outlook: Fiscal Years 2011 to 2012*.

3. Major consolidation measures

The United States has yet to announce any specific fiscal consolidation measures outside of programmed ending of stimulus measures, the freeze in non-defence discretionary spending, and the proposed wage freeze for federal civilian employees, though new measures may have been announced with the release of the administration's fiscal year 2012 budget proposal in February 2011.

Table 1. **Major consolidation measures**

		Budgetary impact 2010-15
Expenditures		
1. Operational measures		
– Federal wages	A two-year salary freeze has been proposed for federal civilian employees in 2011 and 2012.	USD 5 billion
2. Programme measures		
– Discretionary spending	Discretionary spending frozen for three years (excluding defence) at the Budget in February 2010.	n.a.
– Government agency spending	In June 2010, government agencies were asked for plans to trim at least 5% from their budgets by identifying programmes that were seen as "least critical".	n.a.
Revenues		
– Bank fee	Proposal to introduce a financial responsibility fee of 0.15% on the value of liabilities of large financial firms.	n.a.
– Tax expenditures	Limiting to 28% the rate at which itemised deductions can be subtracted from taxable income.	n.a.

Source: "OECD Fiscal Consolidation Survey 2010".

Pension reform

The age for collecting full Social Security retirement benefits is scheduled to gradually increase to 67 by 2027 under current law (the 1983 Social Security amendments).

4. Institutional reforms

PAYGO rule: Congress restored the "pay-as-you-go" rule in February 2010, and enshrined it into law. The rule requires new proposals to be "budget neutral" or be offset with savings derived from existing funds. Hence new spending programmes (or tax cuts) cannot add to the federal deficit. However, the rule does not apply to discretionary spending which is limited by the allocations set out in the annual congressional budget plan.

National Commission on Fiscal Responsibility and Reform: The commission was created in February 2010 by Executive Order from the White House, and comprised an 18-member bipartisan committee. The commission's key mandate was to propose recommendations for balancing the budget, excluding interest payments on debt, by 2015. With the release of that plan in December 2010, the commission has ceased operation. Details of the overall plan would lead to deficit reduction of nearly USD 4 trillion by 2020, and see the deficit cut to 2.3% of GDP by 2015. Under the plan debt would stabilise by 2014, fall to 60% of GDP by 2023, and decline to 40% of GDP by 2035. Specific recommendations included:

- cuts to defence spending and wider discretionary spending;
- a 15% cut to White House and Congress budgets;

- tax deductions on mortgage interest and health insurance would be limited;
- agricultural and other corporate subsidies to face cuts;
- pay for federal workers and members of Congress would be frozen for three years (and 200 000 jobs eliminated);
- social security payments to the wealthy would be reduced;
- the retirement age would gradually increase from 67 in 2027 to 69 years of age by 2075;
- cost increases for Medicare, Medicaid and federal healthcare programmes would be limited;
- tax on gasoline would rise by 15 cents per gallon to fund transport investment.

Table 2. **The government's fiscal consolidation plan**

% of GDP

Fiscal consolidation	2010	2011	2012	2013	2014	2015
Consolidation measures (cumulative)						
Total deficit/surplus	-8.9%	-9.8%	-7.0%	-4.3%	-3.1%	-3.0%
Federal debt held by the public[1]	62.1%	69.4%	73.9%	75.5%	75.3%	74.9%

1. The debt measure is "federal debt held by the public" as a per cent of nominal GDP.

Sources: "OECD Fiscal Consolidation Survey 2010"; United States Congressional Budget Office (2011), *The Budget and Economic Outlook: Fiscal Years 2011 to 2012.*

Notes

1. The figures are decided for the year 2010 but are preliminary for the year 2011. This is because the political parties in Belgium are engaged in discussions to form a new government. Due to the absence of a government, Belgium does not have a finalised budget for 2011.
2. The Canadian government introduced the Strategic Review process in 2007 as an annual savings exercise that will cover all departments over a four-year rotating cycle. Through this process, departments are required to assess all their programmes and identify 5% of the lowest-priority and lowest-performing ones.
3. The one exception is Ontario that has the most important deficit among the Canadian provinces.
4. Stability Programme (January 2010). The Italian government approved a budget package (enacted through the Decree-Law No. 78 of 31 May 2010) to achieve the fiscal objectives set out in the Stability Programme.
5. The Japanese Fiscal Management Strategy does not take account of impacts of the two most recent fiscal packages, which were introduced in September and October 2010.
6. According to the Japanese government, primary balance expense is defined as expenditures of the government's General Account minus debt service and the refund to the Settlement Adjustment Fund.
7. The Korean government defines adjusted fiscal balance as a consolidated central government budget balance, excluding the social security surplus. Fiscal balance including the social security surplus is expected to turn into surplus in 2011.
8. The National Finance Act of Korea does not stipulate that the government should introduce the fiscal rule in the National Fiscal Management Plan. Nevertheless, the government includes the fiscal rule in the plan as a way to show its commitment to fiscal consolidation.
9. In return, the government will take over Portugal Telecom's pension liabilities.
10. These numbers follow from a baseline scenario assuming no new policies in the coming years. The scope for reforms is continuously evaluated in Sweden, and historically Budget Bills in times of stable public finances most often give rise to new policy measures. Furthermore, the current government has stated in its election platform that it has further reform ambitions for new policies for the period 2012-14 which would offset the consolidation effect coming from the roll-back of temporary stimulus measures in an analysis on fiscal policy year on year.