



# **Restoring Public Finances**

**32nd Annual Meeting of OECD Senior Budget  
Officials**

**Luxembourg, 6-7 June 2011**

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OECD**

# Key Questions

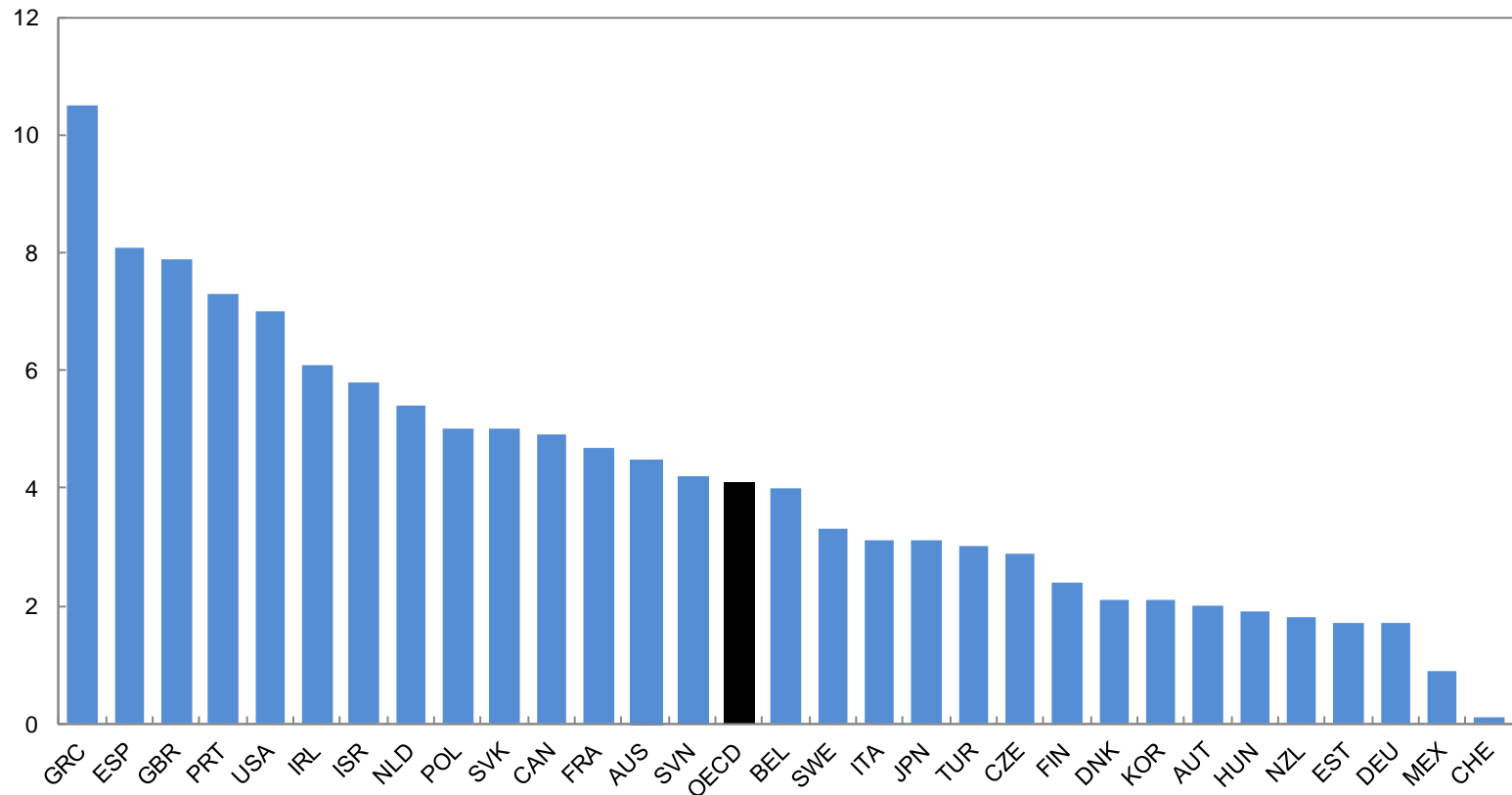
- 1. How do countries intend to restore public finances; how many have announced consolidation plans?**
- 2. Are the consolidation plans backed by concrete measures?**
- 3. What is the expected impact on public finances?**
- 4. Are countries focusing on reducing expenditures or raising taxes?**
- 5.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

# About the Survey

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

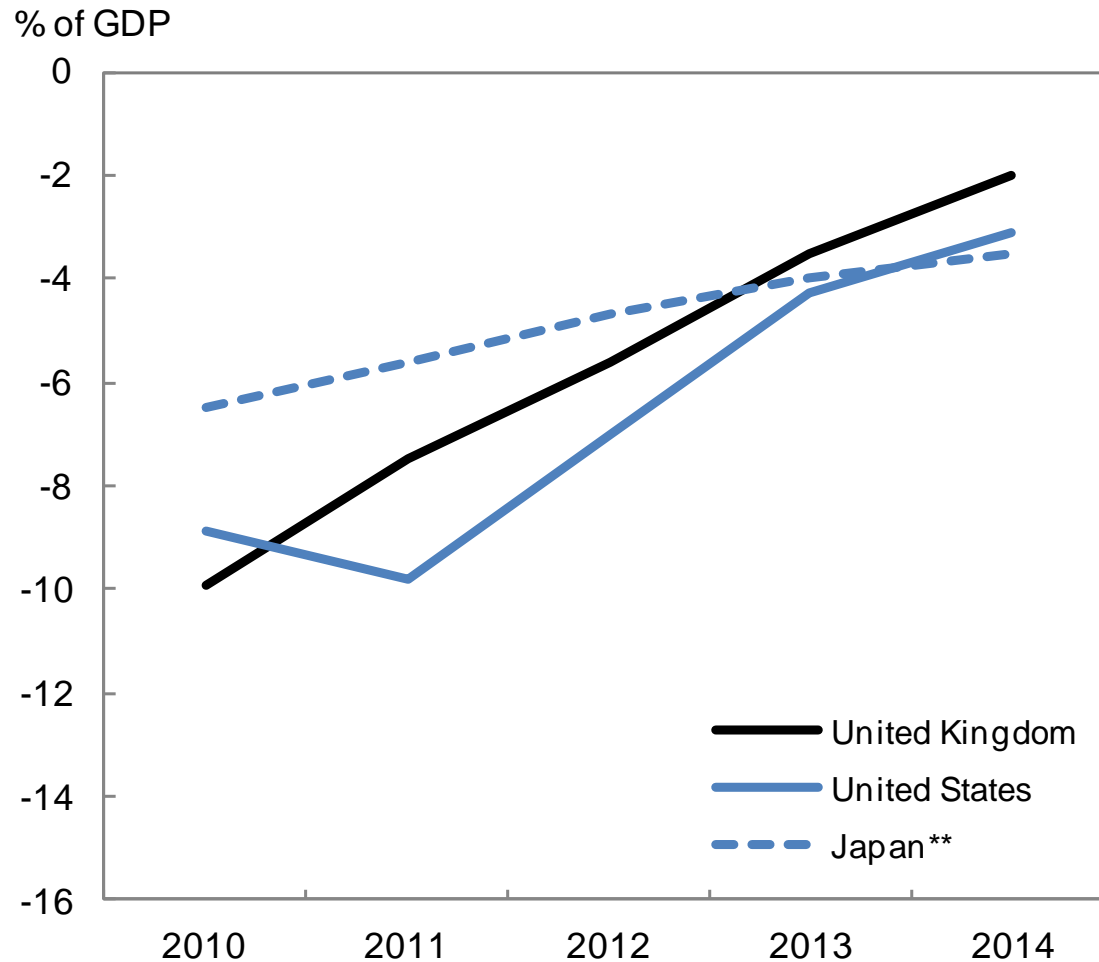
# Ambitious Deficit Targets: Intended Deficit Reduction by 2013...

Change from the deficit trough in 2009/10 to the targeted deficit in 2013



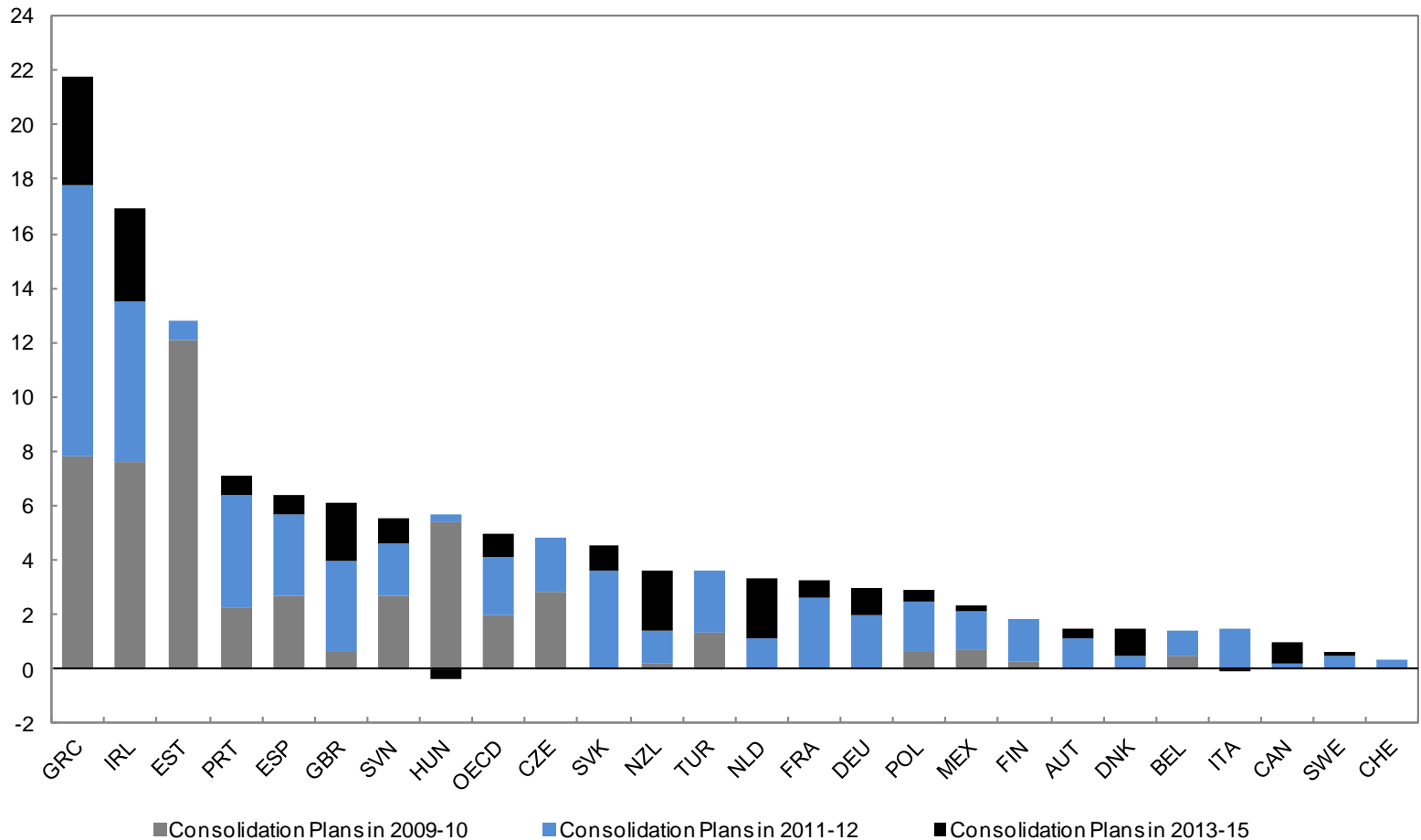
# Deficit goals 2010-2014

## General government financial balance (United States – Federal government)



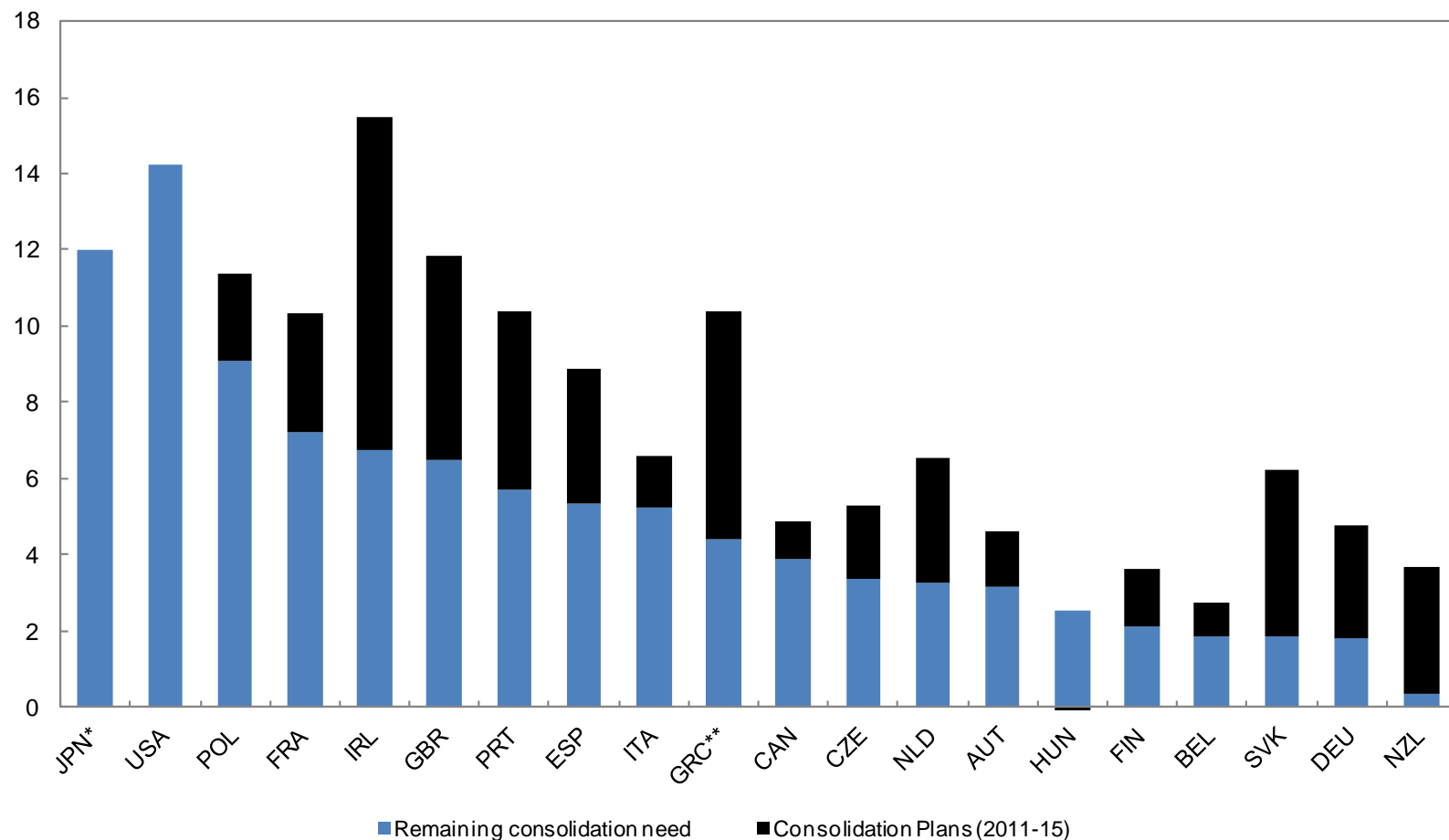
# ...But Announced Consolidation Plans Vary

## Cumulative consolidation in % of GDP



# Fiscal balances need to be improved more to achieve 60% debt-to-GDP ratios by 2025

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



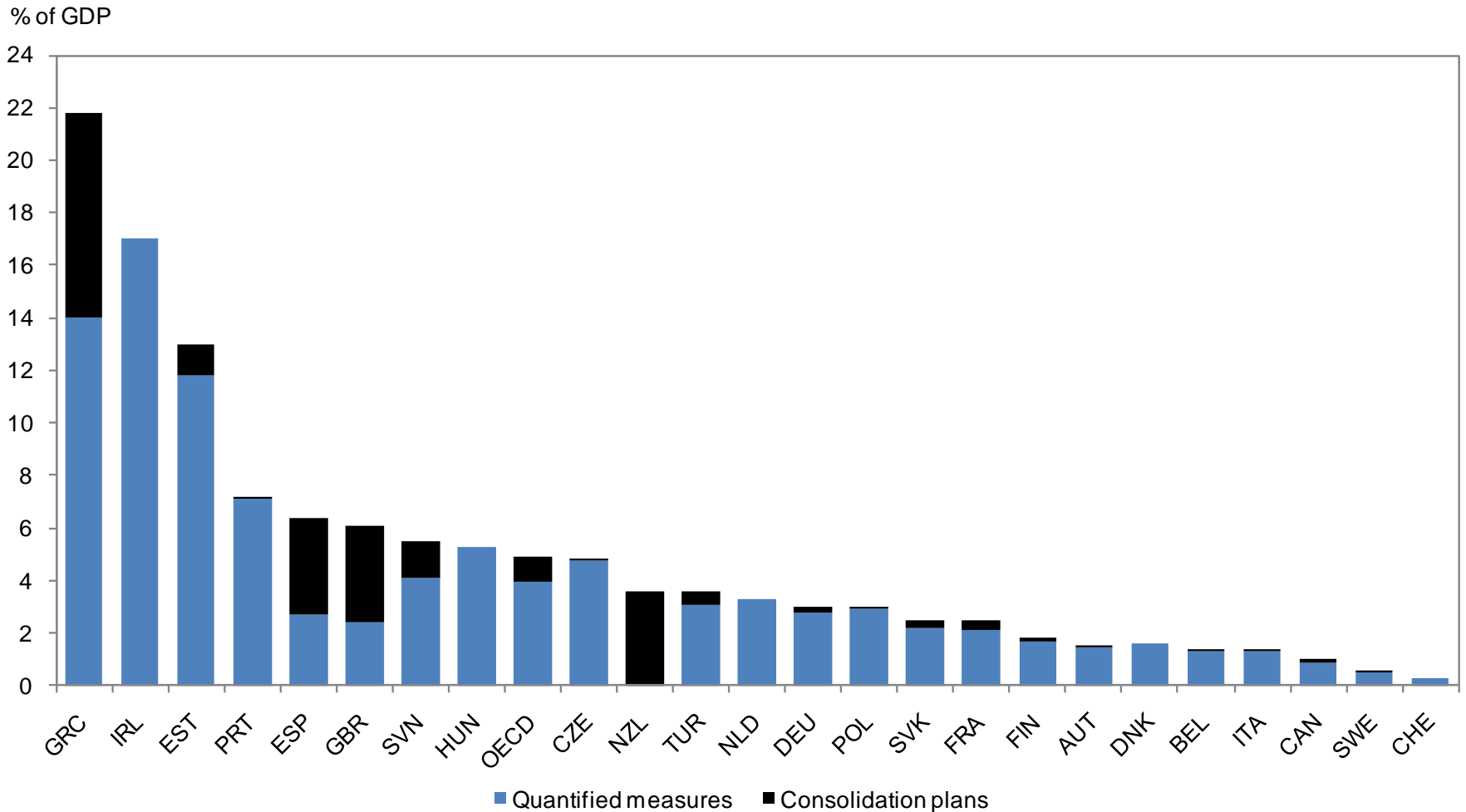
# Fiscal Consolidation Strategies

## Four categories of countries are emerging:

- 1. Substantial consolidation in response to market concerns** about public finances: Greece, Hungary, Ireland, Portugal, Spain.
- 2. Pre-emptive packages** in terms of relatively sizeable medium-term consolidation: Estonia, Germany, the Netherlands, New Zealand, the Slovak Republic and the United Kingdom.
- 3. Yet to announce large/more detailed consolidation:** France, Japan, Poland and the United States.
- 4. Comparatively low fiscal consolidation** needs: Australia, Chile, Finland, Korea, Norway, Sweden and Switzerland.

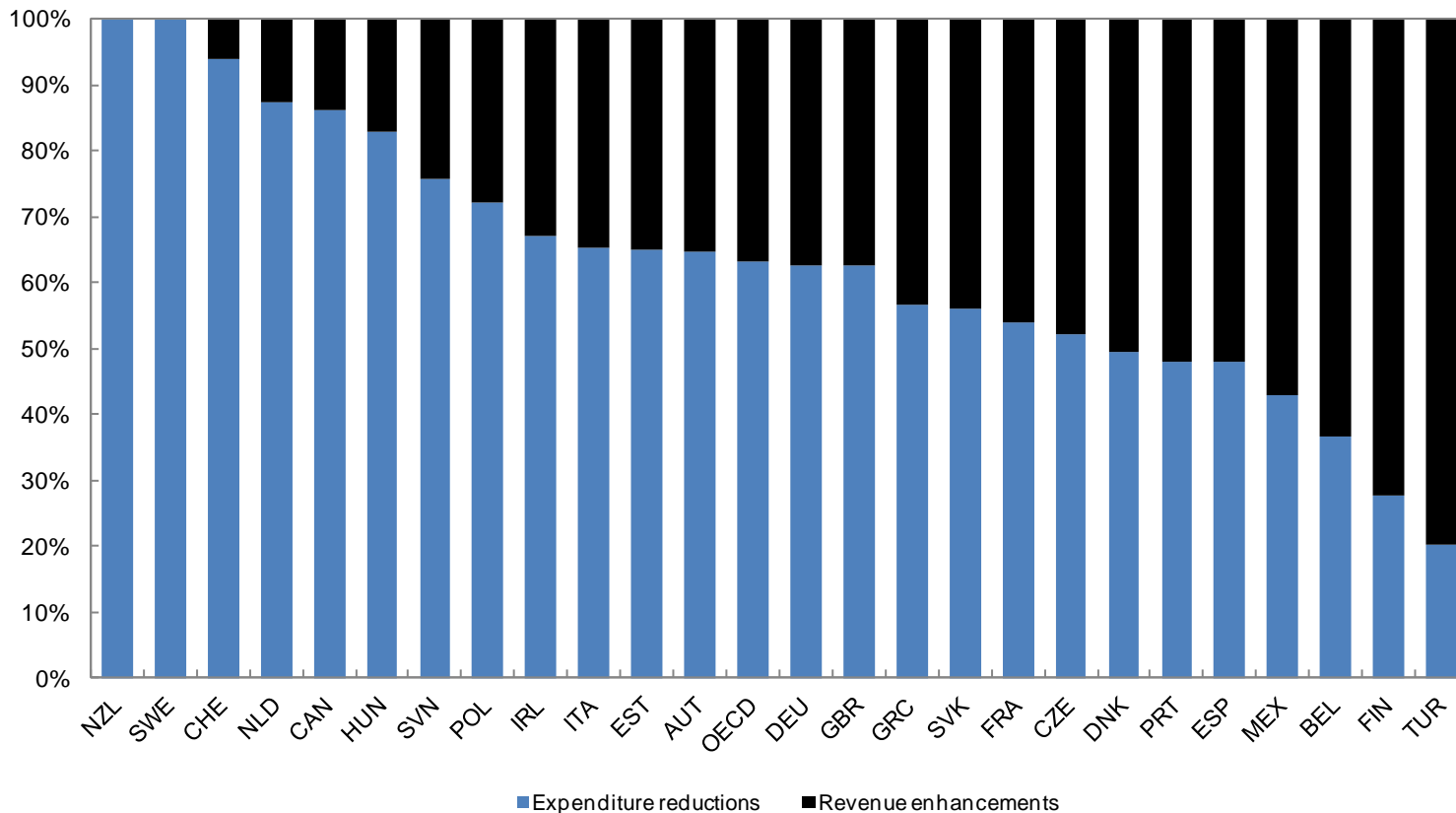


# Large consolidation plans need to be more detailed



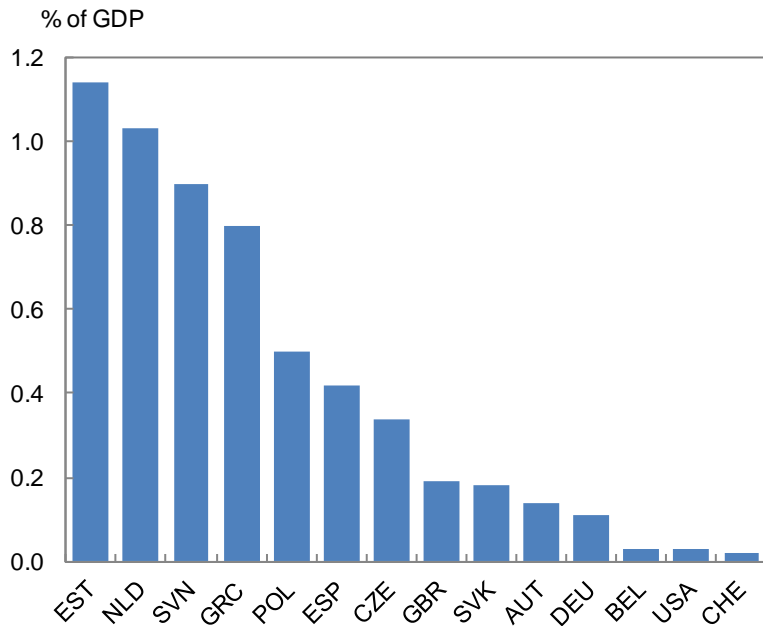
# Are countries focusing on reducing expenditures or raising taxes?

Percentage share of expenditure cuts and revenue increases

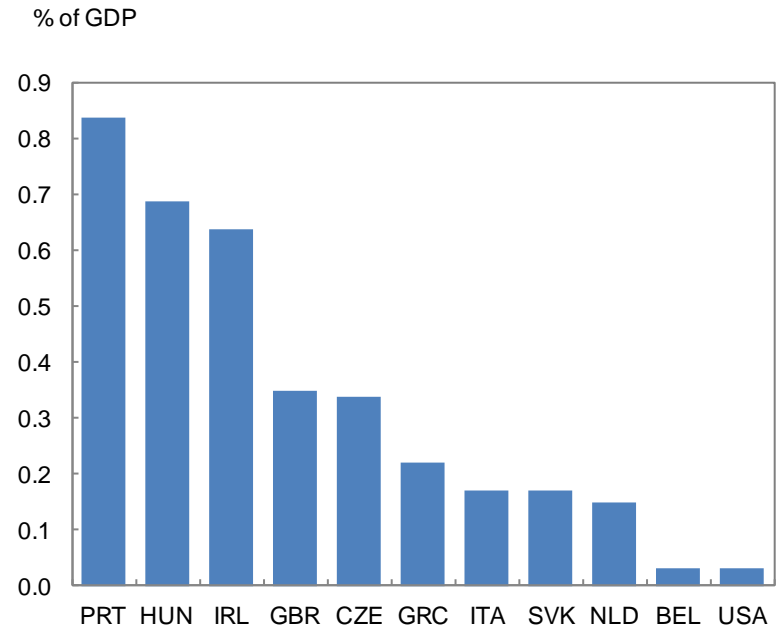


# Expenditures: Operational Cuts

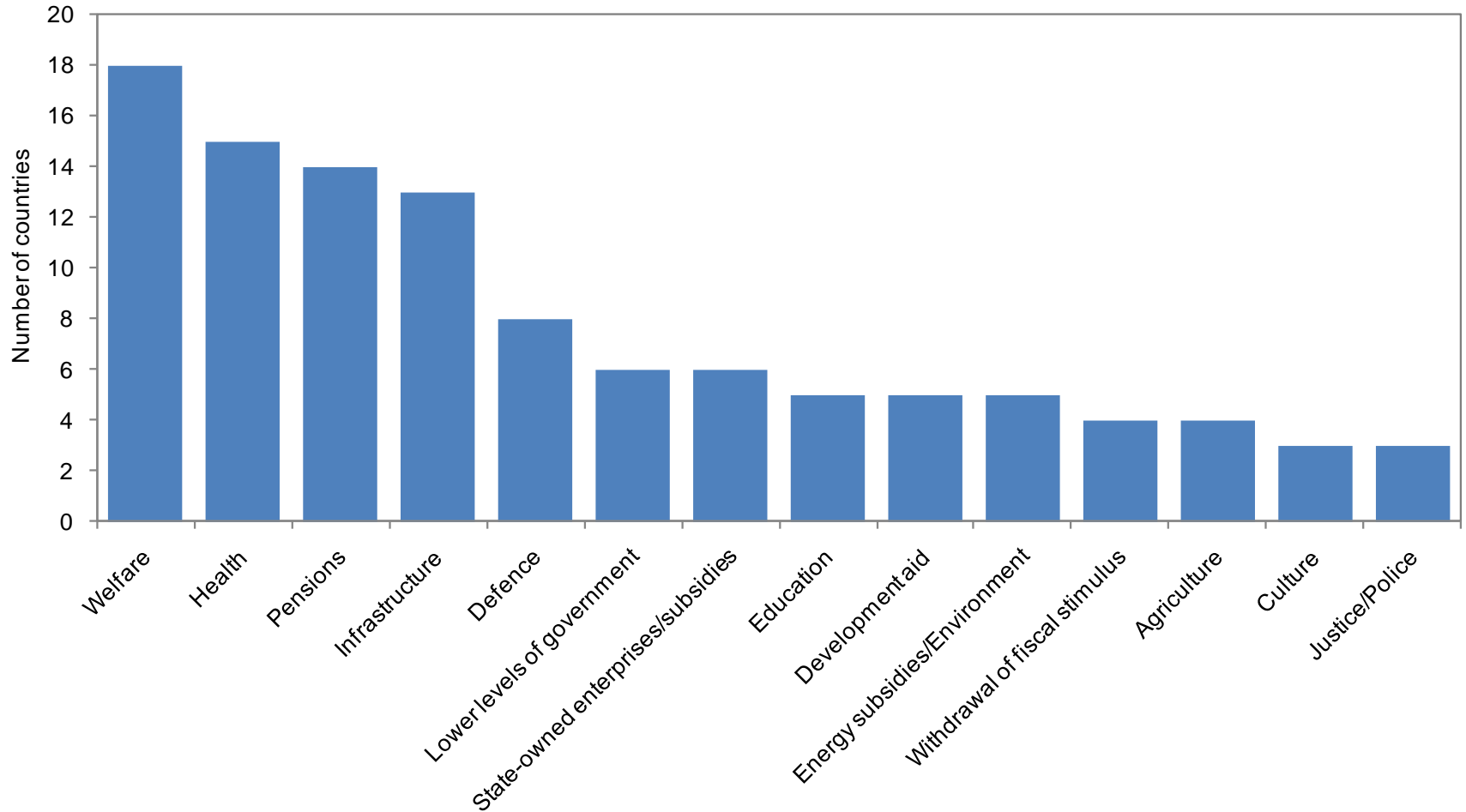
## A. Operational expenditures



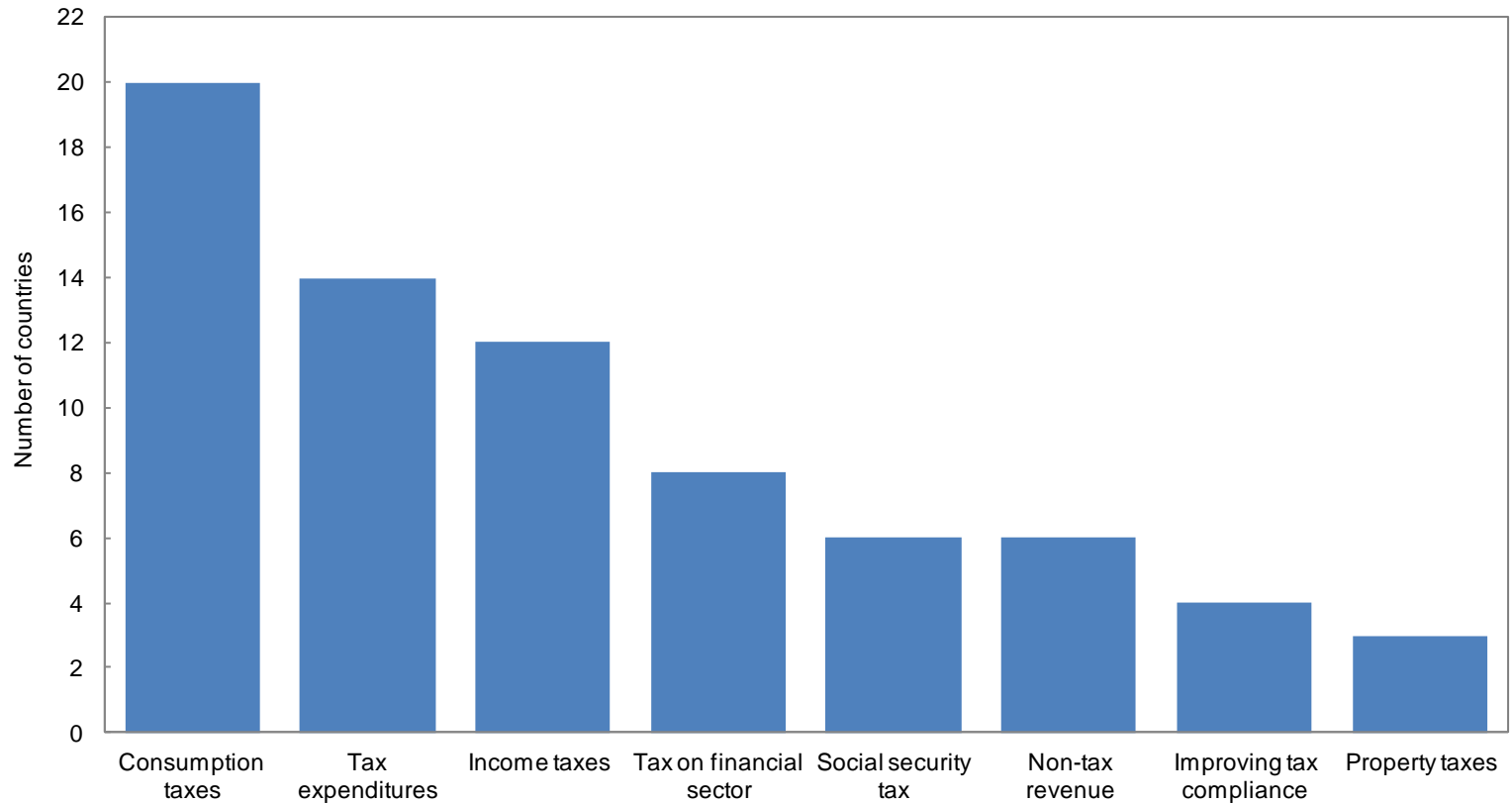
## B. Wage cuts



# Expenditure: Welfare Targeted over Agriculture and Subsidies



# Revenues: Consumption Taxes Dominate



# Final Remarks

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