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Foreword

At the 2011 annual meeting of the OECD Senior Budget Officials, the OECD Secretariat was asked to update its 2010-11 report on fiscal consolidation strategies across OECD member countries, "Restoring Public Finances". A questionnaire was submitted to countries in December 2011 (the "OECD Fiscal Consolidation Survey 2012"). Based on country responses and publicly available information, the Secretariat has produced 29 country notes (see Chapter 2) which provided the background for Chapter 1.

Chapter 1 describes the scope and composition of country plans, and compares them with calculated fiscal need. It also provides information on the timing and detailing of plans. This chapter allows countries to compare their progress in implementing fiscal consolidation and the further development of the consolidation plans.

The country notes in Chapter 2 present the current fiscal position and announced fiscal paths, consolidation plans and detailed expenditure and revenue measures, quantified if possible, for each country. The data on fiscal deficit and gross debt for EU countries are updated based on actual figures for 2010 and 2011, and recently adopted fiscal consolidation are taken into account mainly for some countries that had not adopted the 2012 budget before the survey deadline.

The survey is based on self-reporting from governments. In assessing fiscal sustainability in the longer term, it is limited by the time horizon of the consolidation plans (maximum 2016) and does not capture long-term effects of parametric changes in welfare, health and pensions. Some countries did not provide data for implemented consolidation (2009/10-11). The Secretariat has included implemented consolidation in 2009-11 based on last year's report for the most obvious cases. Some countries did not provide cumulative data, so the data have been recalculated into cumulative terms by the Secretariat wherever possible. Some countries did not provide quantified data for the total consolidation period, even if measures were specified. Measures that were specified but not quantified are not counted in the figures showing the impact of consolidation.

This year, 30 countries participated in the survey. Chile responded that fiscal consolidation was not relevant for the country; Israel did not provide complete data in time for this publication. Fewer countries than last year have reported a consolidation plan in the survey. A main reason for this is missing contributions from Italy and the United States.

Table 0.1. Announced consolidation plans and measures

Year	Participating countries	Deficit reduction targets	Announced consolidation plans	Announced quantified measures
2012	30[1]	28[2]	24[3]	24[4]
2011	30[5]	30	25	24

Notes: Countries that have responded to the consolidation survey are registered as participating countries. Some countries have adopted a deficit reduction target without having announced a consolidation plan. This applies for example for Australia and Japan. Not all countries that have announced a consolidation plan have defined quantified measures for 2012 and beyond, like for example Mexico and Slovenia. Other countries have specified some measures, but did not provide quantifications, like for example Iceland and Korea.

The sources of data in chapter 1 and 2 of this publication are the "OECD Fiscal Consolidation Survey 2012" and *Restoring Public Finances* (OECD, 2011b) if not stated otherwise.

Chapter 3 provides concrete information on the financial situation and consolidation needs of sub-national governments in OECD countries, as well as on the policies that are being carried out – at both levels of government – to reach the consolidation objectives. The chapter is based on a survey sent to the delegates of the OECD Network on Fiscal Relations across Levels of Government and to the Senior Budget Officials delegates.

The Secretariat's report (chapter 1 and 2) was prepared by Knut Klepsvik (lead) and Joung Jin Jang, with statistical assistance of Alessandro Lupi, under the supervision of Jón Ragnar Blöndal and Edwin Lau, of the OECD Budgeting and Public Expenditures Division. Comments by Mario Marcel and Eckhard Wurzel, and by colleagues at the country desks in the OECD Economics Department are gratefully acknowledged. Data provided in the "OECD Economic Outlook, Vol. 2012/1" (No. 91) are used throughout chapters 1 and 2 for presenting economic indicators and long-term fiscal consolidation requirements. Chapter 3 was prepared by Camila Vammalle of the OECD Regional Development Policy Division and is based on Vammalle (forthcoming).

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[1] Chile answered that they did not have fiscal consolidation. Israel did not provide complete data in time for this publication. Italy and the United States did not respond to the survey.

[2] Of the participating countries, Iceland and Norway did not specify concrete deficit targets.

[3] Of the participating countries, the following did not report an announced consolidation plan with a specific volume of consolidation: Australia, Iceland, Japan, Korea, Norway and Turkey (no plan from 2012).

[4] Of the participating countries, the following did not report announced quantified measures: Iceland, Korea, Mexico, New Zealand, Slovenia (no quantification of revised measures from 2012) and Turkey (no measures from 2012).

[5] Last year, Chile, Iceland, Luxembourg and Norway did not participate.

Table of Contents

Foreword……………………………………………………………………………………. 2

Preface……………………….…………………………………………………………… 5

Executive Summary……………………….………………………………………………... 7

Chapter 1. Fiscal consolidation targets, plans and measures in OECD countries…………….. 9

Chapter 2. Fiscal consolidation in the OECD: country profiles……………………………… 57

Chapter 3. Involving sub-national governments in fiscal consolidation……………………… 227

References…………………………………………………………………………………….. 239

Preface

by
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Intelligent Consolidation links Budget Discipline and Growth

Public finances in many OECD countries were severely hit by the economic crisis. Deficits and debt ratios have soared to unsustainable levels, forcing governments to implement credible consolidation plans.

At the 31st annual meeting of the OECD Working Party of Senior Budget Officials (SBO) in 2010, delegates emphasised the need to establish a comprehensive overview of how OECD member countries implement consolidation plans to restore public finances. As a result, the first edition of "Restoring Public Finances" was published in 2011 and gathered widespread recognition around the globe. Therefore, the OECD Public Governance and Territorial Development Directorate and the SBO felt that it would be helpful to provide an update. This second edition will hopefully inspire decision makers in their task to go on with consolidation efforts, whenever and wherever they are needed. Furthermore this publication underlines the importance of the SBO as a platform which inspires by exchanging best budgeting practices among peers.

As the economic crisis evolved and as some countries in particular are facing severe problems to overcome the crisis and develop a perspective of recovery, public discussion is increasingly shifting from primarily stressing consolidation needs to focusing on how to achieve a balance of budget discipline and incentives for growth.

Some argue that budget consolidation and fostering growth appear contradictory to one another. As practitioners, budget officials in various OECD countries can easily identify convincing examples why this is not the case. Administrative inefficiencies (e.g. overlapping or bloated administrative machineries) and inefficient transfer structures (e.g. windfall losses through badly targeted beneficiaries) are just two examples of how "intelligent consolidation" could identify smart levers to save public money without necessarily leading to a social bloodbath, severely damaging demand and thus growth. The resulting savings could then be used in a two-fold manner: To consolidate the budget and to support carefully targeted initiatives to spur growth. As consolidated public finances enhance the trust of financial markets in each respective country, budget discipline is a key prerequisite for economic success and should not be perceived as a hurdle for growth.

The SBO has contributed in particular to best budgeting practices by focusing on the role of institutional frameworks as key elements for improving budget policies. Top-down budgeting, medium-term expenditure frameworks and long-term fiscal projections have been at the centre of SBO activities. The unique SBO experience in that respect leads to the question, whether smart fiscal rules could contribute to a supportive relationship of budget discipline and growth. Yes, they can. For instance, medium-term expenditure frameworks can be designed in a way that let the automatic stabilizers work – not only in bad, but also in the good times. Additionally, performance budgeting can draw the attention of decision makers and the public to the aspect of "value for money", which can help enhance the effectiveness and efficiency of public spending.

Thus, intelligent consolidation helps to identify room for manoeuvre to enhance fiscal balances by minimizing negative effects on demand. Furthermore, intelligent consolidation develops fiscal rules to contribute to growth compatible budget rigour.

In 2010, the SBO experience was summarised in a publication identifying 19 lessons for the public sector to restore fiscal sustainability.[6] This second edition of "Restoring Public Finances" is another key SBO contribution to foster good fiscal governance and will hopefully inspire decision makers to carry out the necessary, though not always popular, task of fiscal consolidation.

[6] OECD (2010); Restoring Fiscal Sustainability: Lessons for the Public Sector, OECD, Paris, www.oecd.org/dataoecd/1/60/44473800.pdf.

EXECUTIVE SUMMARY

Generally the fiscal balances of OECD countries have strengthened since the fiscal crisis. In most OECD countries, the growth rate of the economy returned to pre-crisis levels in 2010, followed by subdued growth in 2011 and into 2012 due to the international economic slowdown and the euro area debt crisis. Owing to fiscal consolidation, structural programmes and the general economic recovery, the fiscal deficit of OECD countries shrank by 1.8% of GDP from 2009 to 2011. However, the OECD average fiscal deficit was still 6.3% of GDP in 2011, and the gross debt of OECD countries is still increasing, to 103% of GDP in 2011.

Some OECD countries have experienced political turbulence in the process of implementing fiscal consolidation and revising the consolidation plans. The governments of several OECD countries have fallen in elections due to opposition to fiscal consolidation. Nevertheless, most countries have extended their consolidation plans by one year and broadened their consolidation efforts by introducing additional measures (Figure 1.10). Most OECD countries are focussing their fiscal consolidation on expenditure reduction: two-thirds of the announced consolidation plans will be expenditure reductions (Figure 1.15).

The general government expenditure-to-GDP ratio in the OECD area remains significantly above the 2007 level (Figure 1.16). The general government revenue-to-GDP ratio has improved a little since 2009 but is still below the 2007 level (Figure 1.27). Given that the expansionary fiscal policies in 2007-09 were concentrated on the expenditure side and that the consolidation packages rely partly on revenue enhancement measures (one-third of the cumulative consolidation), the public sectors of OECD countries are unlikely to return to their pre-crisis size in the short run.

After two-three years of fiscal consolidation, about half of the announced consolidation volume in the plans for 2009-15 have been already implemented (Figure 1.11). Notwithstanding, the planned consolidation in 2012-15 is still substantial, with an OECD average of 2.8% of GDP (Figure 1.12).

This report categorises OECD respondents into four categories:

A. Countries with IMF/EU/ECB programmes: Greece, Hungary, Ireland and Portugal.
B. Countries under distinct market pressure: Belgium, Italy, Poland, the Slovak Republic, Slovenia, Spain.
C. Countries with substantial deficits and debt, but less market pressure: Australia, Austria, Canada, the Czech Republic, Denmark, Finland, France, Germany, Iceland, Israel, Japan, Mexico, the Netherlands, New Zealand, Turkey, the United Kingdom, and the United States.
D. Countries with none or marginal consolidation needs: Chile, Estonia, Korea, Luxembourg, Norway, Sweden and Switzerland.

The four countries in category A have extended their consolidation plans since last year. Except for Greece, these countries have increased the total volume of their consolidation plans for the period 2009-15. These countries have also implemented more than half of the announced volume of their consolidation plans for 2009-15, but have still planned additional consolidation for the period 2012-15, ranging from 3.7% of GDP to 8.2% (Figure 1.12).

All the participating countries in category B have increased the total volume of their consolidation plans for the period 2009-15. Except for Belgium, these countries have implemented more than one-third of the announced volume of their consolidation plans for the period 2009-15, but have still planned for additional consolidation ranging from 2.3% of GDP to 4.6%.

Among the 17 countries in category C, there are some differences in the approach to fiscal consolidation. Some countries have experienced a faster economic recovery than expected one year ago, like Germany and Turkey. These countries did not provide any new data on consolidation from 2012. On the contrary, Japan and the United States have large deficits and large debt-to-GDP levels, but neither has yet adopted specific fiscal consolidation plans to deal with this situation. In between, there are those EU countries that are under the excessive deficit procedure and that are assessed by the European Commission, of which Austria has announced a large fiscal consolidation package of about 8% of GDP, higher than the ones of Spain and the United Kingdom. The other countries under the EU excessive deficit procedure have announced consolidation packages from 2.6% of GDP. The remaining countries in category C have announced consolidation packages of about 2% of GDP or below, like Canada, Mexico and New Zealand.

The seven countries in category D do not need substantial consolidation but some of them, like Luxembourg, have announced fiscal consolidation measures.

The consolidation plans are not always specified and quantified, as reported last year (Figure 1.14). For example, Slovenia (category B) did not provide data on specific, quantified measures for 2012 and beyond. The United Kingdom provided specified measures, but the quantified impact of the operational measures was difficult to assess.

As reported last year, the countries with quantified expenditure measures continue to rely on programmes measures over operational ones. This is not a surprise as programme expenditures comprise the largest bulk of overall public expenditure. In particular, of the countries with the largest consolidation packages on the expenditure side, Ireland and Greece (category A), Austria, Spain and the United Kingdom rely the most on programme measures (Figure 1.21). Welfare, health care, pensions and infrastructure are the four most frequently targeted programme areas for consolidation (Figures 1.24-1.26).

Among countries with quantified revenue enhancement measures, the countries in category A except Hungary have the highest impact of such measures, totalling more than 5% of GDP (Figure 1.31). The countries with revenue enhancement measures rely the most on tax measures, of which consumption taxes are the most frequently adopted, followed by income taxes and reductions of tax expenditures (Figure 1.30). Consumption tax measures focus on excise duties on tobacco and alcohol, VAT and environmental taxes (Figure 1.32). Of income-related tax measures, personal income tax measures are the most common, followed by corporate income tax measures and social security contributions (Figure 1.34).

CHAPTER 1*

FISCAL CONSOLIDATION TARGETS, PLANS AND MEASURES IN OECD COUNTRIES

This chapter discusses OECD countries' consolidation plans as of December 2011. The data on fiscal deficit and gross debt for EU countries are updated based on actual figures for 2010 and 2011, and recently adopted fiscal consolidation are taken into account mainly for some countries that had not adopted the 2012 budget before the survey deadline.

The chapter analyses current fiscal positions and announced fiscal strategies, consolidation plans, and the expenditure and revenue measures for 30 OECD countries.

* 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.

1.1. Introduction

Public finances are still in a dire position in many OECD member countries

Five years after the global financial crisis and two years after the European sovereign debt crisis most OECD countries have adopted fiscal consolidation packages and are implementing substantial consolidation efforts. In some countries, the crises have led to record unemployment, economic stagnation, and vulnerable banks. A change of government has occurred in several countries[7] where the policy towards austerity and debt reduction was an important element behind the fall of the government.

Supported by an economic recovery in 2010 and 2011 the current fiscal stance of most OECD countries has improved over this period. However, as the economic recovery faces obstacles, and in some countries the economy has entered recession, the fear in financial markets has returned again, and voices calling for a renewed focus on economic growth to complement the austerity packages have become prominent.

This report provides a comparative and transparent picture of OECD countries' consolidation plans. For those countries that have adopted a fiscal consolidation plan, their time frame typically extends to 2015. The survey presents, in a comparable way, current fiscal positions and announced fiscal strategies, consolidation plans, and detailed expenditure and revenue measures for 30 OECD member countries.[8]

Box 1.1. Definitions

What is consolidation? In this report, fiscal consolidation is defined as concrete policies aimed at reducing government deficits and debt accumulation, *e.g.* active policies to improve the fiscal position. Merely announcing an ambitious deficit target over the medium term with no accompanying consolidation plan on how to achieve the deficit target is not regarded as consolidation in this analysis. Consolidation plans and detailed measures are given as a per cent of nominal GDP. The measures are quantified to the extent possible.

Deficits can also be reduced by economic growth leading to more revenues and less expenditure, *e.g.* regarding unemployment, when more people find jobs (cycle effects). General labour market and product market reforms are important for spurring economic growth (*e.g.* changes in labour regulation or making product markets more competition-friendly). Such reforms and cycle effects, however, have not been included in the present report.

There is no clear, uniform definition of what constitutes a spending reduction or a revenue measure (e.g. tax expenditures) in a consolidation plan. In this analysis, measures are listed as reported by countries. Normally, these measures would relate to the budget of the year before the start of the consolidation plan (or the first year's budget) or a forecasted baseline assuming policies are unchanged. The consolidation plans and quantified measures are presented with a cumulative impact over the consolidation period.

During the past two years the economy in the OECD area partly recovered and deficits shrank

This sub-section presents some key economic indicators based on the latest OECD Economic Outlook projections (OECD 2012). In most OECD countries, the economic recovery in 2010 was followed by subdued growth in 2011, due to an economic slowdown following the euro-area debt crisis (Figure 1.1A).

7 Ireland (March 2011), Finland (June 2011), Portugal (June 2011), Greece (November 2011 and May 2012), Italy (November 2011), Spain (December 2011), Belgium (December 2011), Slovenia (February 2012), Slovak Republic (March 2012), Netherlands (April 2012), France (May 2012).

8 No consolidation is planned in Chile; Israel did not provide complete data in time for this report; Italy and the United States did not respond to the survey.

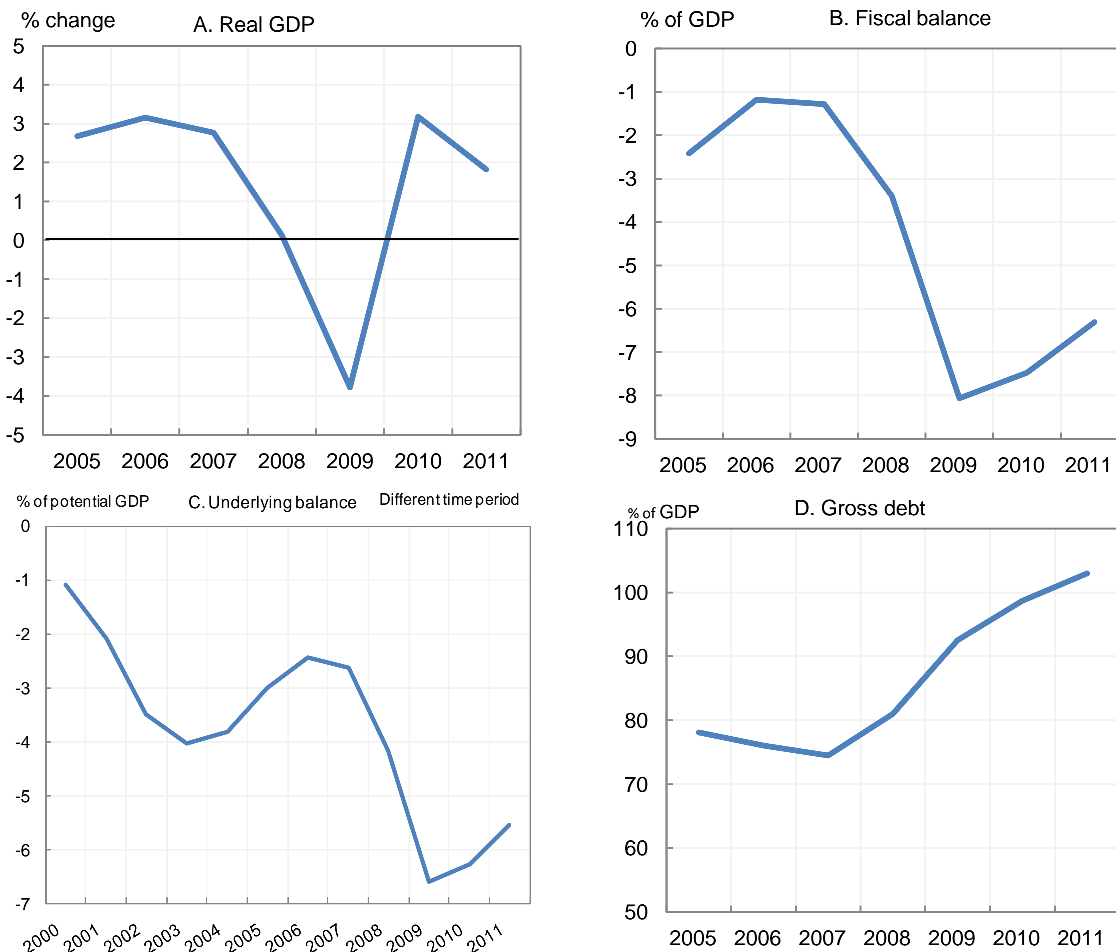
In the beginning of 2012, the economy of most OECD countries came to a halt, and lately the growth expectations for this year have narrowed. The OECD expects that Japan, Canada and the United States will continue to enjoy relatively robust growth, whereas in Europe the outlook remains weak. The OECD expects that the growth will resume in 2013.

Owing to fiscal consolidation, structural reforms and general economic recovery, OECD governments' fiscal deficit shrank from 8.1% of GDP in 2009 (now estimated to be 0.2 percentage points higher than forecast last year) to 7.5% of GDP in 2010 and to 6.3% in 2011 (Figure 1.1B). The deficits are still highly unsustainable but are expected to narrow further to 5.3% in 2012 and 4.2% of GDP in 2013. The future increase of expenditures related to the ageing population in many OECD countries will add to the challenge of an unsustainable financial situation.

Most OECD countries are implementing consolidation measures according to plan. While most of these consolidation measures are structural, some countries have also applied substantial one-off measures and changes in accounting practices like channelling pension tax revenue to the government in exchange for future pension liabilities. The structural challenge remains considerable in most OECD countries, not only because of the responses to the fiscal crisis but also due to previous structural deficits (Figure 1.1C).

Gross debt continued to grow in the past two years and the total gross debt in the OECD area reached 103% of GDP in 2011 and is expected to climb further in the next two years (Figure 1.1D).

Figure 1.1. Key economic indicators (OECD area)



Notes: Fiscal balance is general government financial balance and gross debt is general government financial liabilities as a per cent of nominal GDP. The underlying balance is general government financial balance adjusted for the cycle and one-offs as a per cent of potential GDP. They are weighted averages.

Source: *OECD Economic Outlook, Vol. 2012/1* (No. 91)

Financial markets and politics influence consolidation

At a time when economic growth is still fragile and some OECD member countries are in or on the brink of recession, no easy trade-offs exist between short-term growth and the need to consolidate.

Pressures for fiscal consolidation remain strong. There is still a risk of serious financial problems in several European countries. The high, and in some countries rising, long-term sovereign bond yields show the financial markets' reactions to indications that fiscal positions are unstable without substantial consolidation efforts. The high bond yields demonstrate that the financial markets have serious concerns about governments' ability to comply with repayment terms. Three OECD countries in the euro area (Greece, Ireland and Portugal) have experienced serious financing problems and have entered into programmes with the European Commission (EC), the European Central Bank (ECB) and the International Monetary Fund (IMF) in order to secure sustainable financing. Since last year's report, "Restoring Public Finances" (OECD, 2011b), another OECD country (Hungary) has approached the European Commission and the IMF for a programme. In contrast, one country (Iceland) has successfully completed its IMF programme since last year's report. In addition, all countries are exposed to close scrutiny by the financial

markets and to financial risk assessment by the rating agencies, and some OECD countries are at risk of downgrading. During the last year, some OECD countries lost their triple A rating and other countries were set to a negative outlook.

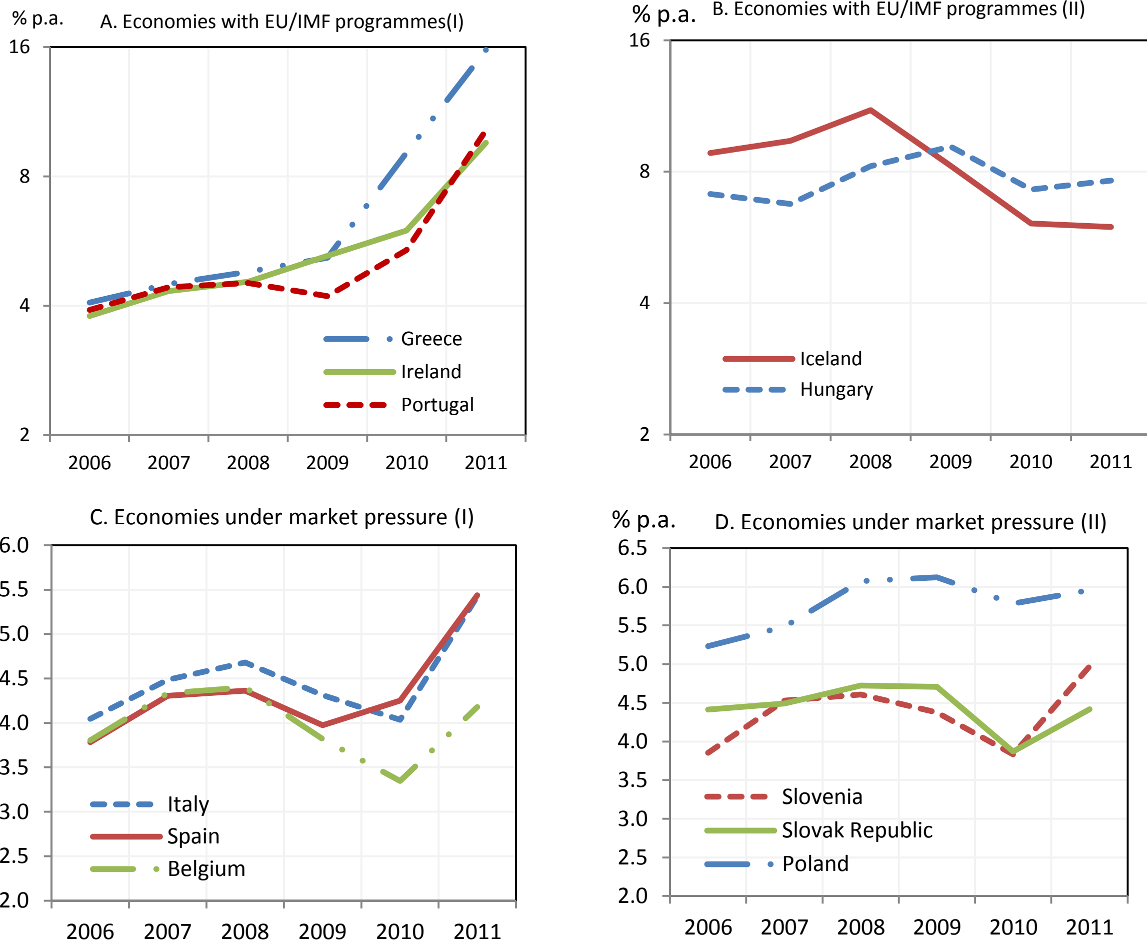
Figure 1.2 displays the development of long-term sovereign bond yields (10 years) for different sets of countries. First, there are five countries that for some time have entered into programmes with the EU and/or the IMF (Figure 1.2 A – B). The situations in Greece and Portugal are especially dire.

Second, large and long standing EU economies have experienced different reactions by the financial markets. While France and the United Kingdom have up to now succeeded in providing credible fiscal consolidation plans in which the financial markets have sufficient confidence, Italy and Spain have experienced serious reactions in the financial markets which have triggered policy reactions. Belgium, also experienced rising long-term interest rates in 2011 (Figure 1.2C).

Third, some of the recent EU members that are OECD members also observed severe challenges in 2011 concerning a lack of confidence in the financial markets resulting in high and rising sovereign bond yields (Figure 1.2D).

Higher long-term interest rates and debt levels could hamper future economic growth, increase the vulnerability of public finances to shifting market sentiments, and reduce the scope for fiscal policies to counteract future economic downturns.

Figure 1.2. Long-term bond yields



Notes: Long-term interest rates are secondary market yields of long-term (usually 10 year) government bonds as a per cent per annum. The annual data are the average of monthly figures, which are calculated as the average of weighted or unweighted arithmetic rates relating to all days or specified days in the month, or they refer to a day at or near month's end.

Source: Monthly Monetary and Financial Statistics, OECD StatExtracts.

Box 1.2. Iceland's recovery

In 2011, Iceland successfully completed its three-year IMF-supported adjustment programme worth USD 2.1 billion. The programme aimed at stabilising the exchange rate, making public finances sustainable, and restructuring the financial system. All three of these objectives were met.

The Icelandic economy returned to buoyant growth above 3% of GDP in 2011. The growth rate is expected to moderate to 2.75% in 2012. Unemployment should fall to 5% by the end of 2013, and inflation should be on the way down to the authorities' target (OECD 2012).

Before the crisis, Iceland had a banking sector that was about 10 times the national GDP. The government restructuring of the banks resulted in a large increase in government debt and imposed an urgent need to restore the government finances. The banking sector has now been rationalised to 2 times the national GDP, and the core banking system has been recapitalised and is fully functioning.

The government is pursuing needed fiscal consolidation and is committed to a surplus in 2014 as certain conditions are in place, mainly related to the stability of the financial system and the strength of Iceland's international reserves position. The government has taken the opportunity of the crisis to redesign its fiscal rules and its medium-term fiscal framework. More details are provided in the country note in Chapter 2 of this report.

Renewed growth will help, but will not be enough to stabilise debt

Economic growth will reduce countries' deficit but will not be sufficient by itself to stop the mounting debt levels in many countries. Some countries may adopt an inflation policy, which may ease the burden of debt in the short run, but normally inflation will be followed by higher interest rates to compensate for the loss of purchasing power of the principal. Inflation will normally also hamper economic activity in other ways. Therefore, there is still a need to reduce government debt to prudent levels.

Box 1.3. Calculation of the fiscal consolidation requirement

The OECD has calculated the fiscal consolidation requirement to stabilise general government gross debt or to target a 60% debt-to-GDP ratio in the long-run perspective. The required improvement is shown for the general government underlying primary balance which is the cyclically adjusted balance excluding one-off revenue and spending measures, and interest payments. The calculations were based on *inter alia* plausible, but stylised assumptions on economic growth, interest rates and unemployment.

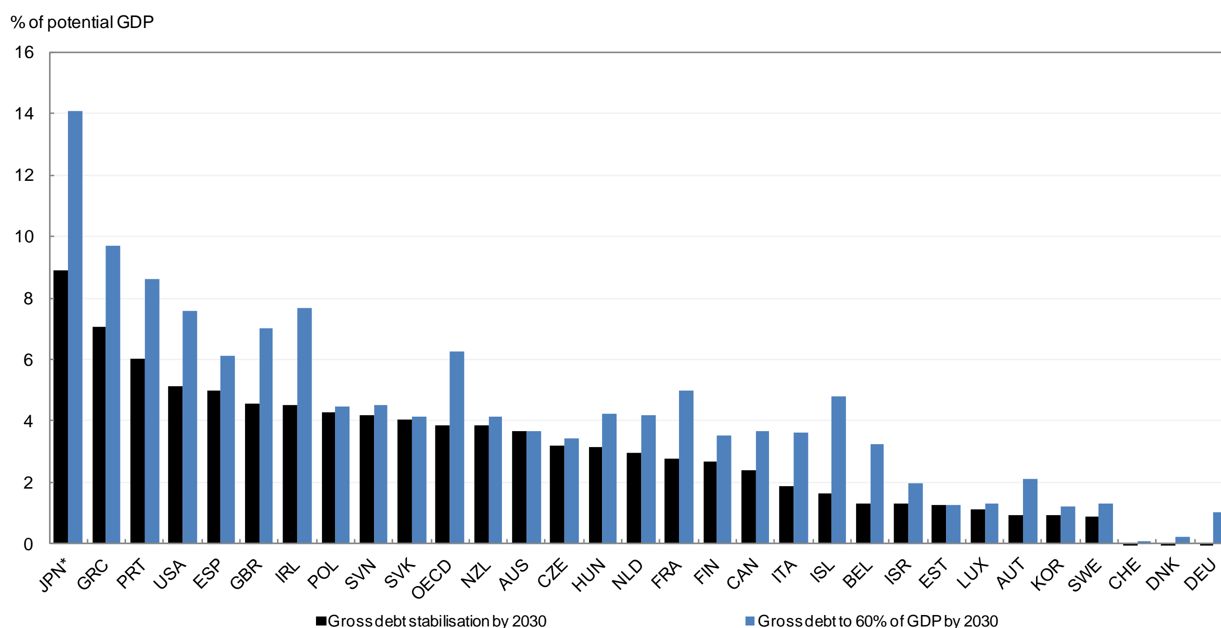
Figure 1.3 shows the total consolidation required to stabilise debt or achieve a gross general government debt-to-GDP ratio equal to 60% of GDP by 2030, assuming the projected improvement in the underlying primary balance between 2011 and 2013 conforms with short-term projections in the "OECD Economic Outlook, Vol. 2012/1" (No. 91) (OECD, 2012), with an additional constant improvement in the underlying primary balance each year between 2013 and 2030 of 0.5% of GDP (1% for per annum for Japan) calculated so as to achieve the debt target by 2030 (2040 for Japan). Consolidation requirements following changes in ageing-related public spending and upward pressure on health spending are not explicitly included in the calculations of fiscal consolidation requirements.

The figure shows the average improvement in the underlying primary balance between 2011 and 2030 necessary to stabilise government debt-to-GDP ratios or to bring them down to 60% of GDP. When simply stabilising debt ratios, the average increase in the underlying primary balance over this period corresponds closely to the peak increase over the same period. When targeting 60%, however, the peak increase will be substantially higher than the average increase, but past the peak the fiscal policy can be loosened and the underlying primary balance can decrease before the debt ratio stabilises at 60% of GDP. More details on calculations and essential assumptions are specified in the "OECD Economic Outlook, Vol. 2012/1" (No. 91) (in particular Box 4.2 on assumptions in the baseline long-term economic scenario, and Figure 4.1).

In the "*OECD Economic Outlook, Vol. 2012/1* – No. 91 (OECD 2012) the OECD has, from the position of the underlying primary balance in 2011, estimated the fiscal consolidation in OECD countries required to stabilise debt-to-GDP ratios by 2030. Fiscal consolidation is here defined as improvements in the underlying primary balance. The consolidation requirements are substantial but vary considerably. According to this model, the OECD area requires a consolidation of 3.9% of potential GDP to stabilise debt by 2030. Compared with last year's report, which described consolidation requirement to stabilise debt by 2025 (from 2010), the consolidation requirement has decreased by 1.4 percent points.

According to this model, Greece will require an improvement in the underlying primary balance of 7% of GDP from 2011 to 2030 to stabilise the debt ratio, assuming a primary deficit of 5.8% of GDP in 2011 (estimated 3.8% last year to stabilise debt by 2025). Using the same calculation, tightening by more than 4% of GDP is called for in Ireland, Japan (by 2040), Poland, Portugal, the Slovak Republic, Slovenia, Spain, United Kingdom, and the United States (Figure 1.3).

Figure 1.3. Substantial consolidation required to stabilise or reduce debt by 2030



Notes: The figure shows the average improvement in the underlying primary balance between 2011 and 2030 necessary to stabilise government debt-to-GDP ratios and to bring them down to 60% of GDP. In this chart, consolidation is defined as the average improvement in the underlying primary balance between 2011 and 2030.1. In case of Japan, the consolidation shown would be sufficient to stabilise the debt-to-GDP ratio but only after 2030.

Source: OECD (2012), OECD Economic Outlook, Vol. 2012/1, OECD Publishing, Paris, http://dx.doi.org/10.1787/eco_outlook-v2012-1-endoi.

For many countries, simply stabilising debt would still leave the debt at high levels, which would cause a vulnerable financial position. A more sustainable solution may be to bring debt-to-GDP ratios down to 60% of GDP, a criterion that is also consistent with the European Union's Stability and Growth Pact. According to the model, Greece requires a total consolidation of 9.7% of potential GDP to reach the debt level of 60% by 2030. Using the same calculation, tightening by more than 6% of GDP is called for in Ireland, Japan, Portugal, Spain, the United Kingdom and the United States. The following countries will need to consolidate between 4% and 6% of GDP by 2030: France, Hungary, Iceland, Italy, the Netherlands, New Zealand, Poland, and Slovenia. The OECD area will need a total consolidation of 6.3%

of potential GDP to curb debt to 60% of GDP by 2030 (an increase of 0.1 percentage points from the estimate aiming for 2025, as reported in last year's report). Such a reduction would avoid growth-deterring high interest rates associated with high debt levels and would provide a safety margin for public finances to tackle future shocks.

1.2. Four categories of countries in regard to fiscal consolidation

A few OECD countries have announced consolidation plans as part of an IMF/EU/ECB programme; some countries have adopted plans due to market pressure and other countries have announced consolidation plans as a pre-emptive measure to curb substantial deficit and debt. A final group of countries does not require fiscal consolidation due to the soundness of their public finances. On this background, four groups of countries are emerging based on certain criteria:

A. **Countries with IMF/EU/ECB programmes**
   OECD countries with an ongoing IMF and/or EU programme and countries which have applied for a programme are grouped in category A.
B. **Countries under distinct market pressure**
   Category B includes OECD countries with an average consolidation requirement over the period 2012-30 above 3% of GDP and with an experienced change in long-term interest rates over the period 2006-11 equal to or above zero.
C. **Countries with substantial deficits and debt, but less market pressure**
   Category B includes OECD countries which meet one or more of the following criteria: an average consolidation requirement over the period 2012-30 higher than 3% of GDP, an estimated average general government fiscal deficit of 2011-12 above 3% of GDP, or the 2011 general government gross debt above 60% of GDP.
D. **Countries with none or marginal consolidation needs**
   Category B includes OECD countries which meet all of the following criteria: an experienced decrease in long-term interest rates over the period 2006-11, an average consolidation requirement over the period 2012-30 lower than 1.5% of GDP, an estimated average general government fiscal deficit of 2011-12 below 3% of GDP, and the 2011 general government gross debt below 60% of GDP.

Category A. Countries with *IMF/EU/ECB programmes (four countries)*

Three countries have ongoing programmes with the International Monetary Fund, European Central Bank, and/or the European Commission: Greece, Ireland and Portugal. In this relation the countries must introduce severe consolidation measures and wide-ranging structural reforms. Hungary approached the EU and the IMF earlier this year for a new programme. These four countries have adopted the largest consolidation packages for 2012-16, between 3.7% and 8.2% of GDP. Iceland successfully completed its IMF programme last year.

Category B. Countries under distinct market pressure (six countries)

As shown in Figure 1.2B-D, some other countries have observed close scrutiny from volatile financial markets: Belgium, Italy, Poland, the Slovak Republic, Slovenia, and Spain. These countries, however, have been able to finance their debts without external programmes. In particular, Italy and Spain have observed rising interest rates since late 2011. The markets eased to some extent thanks to the intervention of the ECB earlier in 2012. However, the long-term interest rates are very high compared to Germany. Iceland

still faces high long-term interest rates after the completion of its IMF programme but high interest rates are not new for this country and the interest rates actually have been reduced over the period 2006-11.

These countries have also seen their interest rates increase over the period 2006-11. In addition these countries have large long-term fiscal consolidation needs, as calculated by the OECD, ranging from 3.2% of GDP to 6.1%. These countries are obliged to demonstrate decisive and credible fiscal policy to curb the deficit. Except for Poland, the struggle to design and adopt fiscal consolidation has led to political turbulence and the fall of governments. These six countries have adopted consolidation packages for 2012-15 ranging between 2.3% and 4.6% of GDP.

Category C. Countries with substantial deficits and debt, but less market pressure (17 countries)

Several OECD countries which are members of the EU have an ongoing excessive deficit procedure with the European Commission. In addition to the six EU countries in category B and the four countries in category A, the following seven countries are assessed by the European Commission in their efforts to reduce the general government deficit below 3% of GDP and/or to reduce the debt below 60% of GDP; Austria, the Czech Republic, Denmark, France, Germany, Netherlands and the United Kingdom. According to OECD calculations these seven countries have varying long-term consolidation need, ranging up to 7% of GDP. All of these countries have adopted consolidation packages 2012-15 ranging between 1.7% and 7.4% of GDP, of which Austria and the United Kingdom have the largest volumes.

Other countries have not experienced external pressure to the same degree as the countries mentioned above. However, eight of these countries have introduced fiscal consolidation plans or fiscal strategies in order to curb deficit and reduce debt: Australia, Canada, Finland, Iceland, Israel, Mexico, New Zealand and Turkey. These countries have either a deficit above 3% of GDP or a gross debt above 60% of GDP. Most of these countries also have substantial long-term consolidation needs, ranging between 2% and 4.8%. Most of the countries have adopted consolidation packages for 2012 and beyond, ranging between zero and 1.5% of GDP, to reduce the deficit or curb the debt. Turkey do not have a specific consolidation plan for 2012 and beyond.

Japan and the United States also have large long-term consolidation needs, high debt-to-GDP ratios and persistent and substantial deficits, but have not yet adopted comprehensive consolidation strategies.

Category D. Countries with none or marginal consolidation needs (seven countries)

Finally there are seven countries that do not have consolidation at all or have announced a very limited consolidation effort, for the simple reason that the countries do not need to consolidate to achieve fiscal sustainability: Chile, Estonia, Korea, Luxembourg, Norway, Sweden and Switzerland. These countries have low long-term consolidation needs, their long-term interest rates are reduced over the period 2006-11 and they have both low deficits/surpluses and low gross debt-to-GDP ratios.

Compared to the categories of last year's report there are some striking changes. First, a new category of countries with IMF/EU programmes has emerged. Last year these countries were described in the group of countries that experienced market pressure. Several new countries have joined Spain who remains in the market pressure group (category B): Belgium, Italy, Poland, Slovak Republic and Slovenia. France has moved from the group last year that had not announced large or more detailed consolidation to category C thanks to the adoption of a comprehensive consolidation plan. The last group (category D) is more or less like last year, while Estonia replaced Australia in the group.

1.3. Evolution of fiscal deficits and gross debt

In this report, fiscal consolidation is defined as "active policies to improve the fiscal position" (see Box 1.1 above). This guideline excludes any expected cyclical improvements in deficits following an automatic rise in revenue and/or decrease in entitlement spending associated with a recovering economy. By the same token, deficit reduction stemming from policies aimed at promoting growth, while important and desirable, is also more difficult to predict and quantify with confidence, and thus is outside of the scope of this report.

This section begins by first studying how fiscal deficits and debt have developed up to 2011. Then it looks at targets for fiscal balance and gross debt. The next section (1.4 below) will describe fiscal consolidation plans and the share of quantified, specific measures in those plans.

1.3.1. Strengthened fiscal position after two-three years of fiscal consolidation

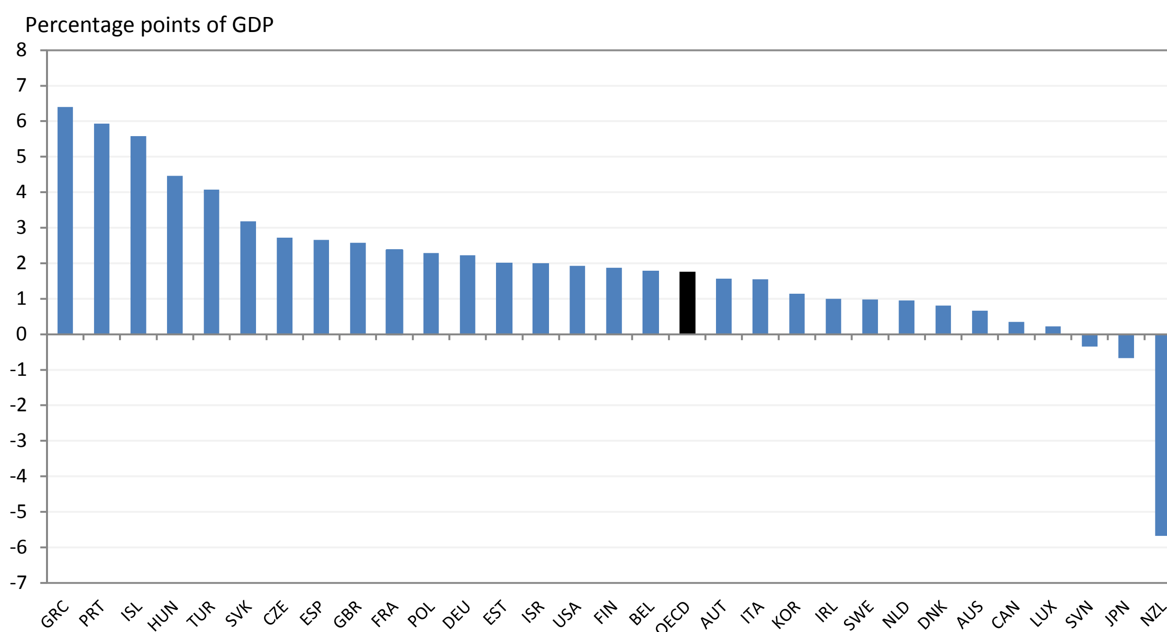
Substantial deficit reductions 2009-11

Most OECD countries have implemented substantial deficit reductions since 2009, the year in which the most countries faced their highest fiscal deficit due to the combined effects of the financial crisis and fiscal stimulus to recover economic growth. The average improvement in overall fiscal deficit is about 1.8% of GDP in the OECD area. The countries with IMF/EU programmes (category A), except Ireland, and Iceland and Turkey (category C) have achieved the largest improvements of the fiscal balance. Greece and Portugal are the two countries with the most impressive improvements of the fiscal deficit, by 6.4% and 5.9% of GDP respectively (from 15.6% and 10.2% respectively). Hungary, Iceland and Turkey have all improved the balance by more than four percentage points from 2009 to 2011 (Figure 1.4).

On the contrary, the only country with a substantially widened fiscal deficit in this period is New Zealand, primarily due to the impact of the earthquake in the Canterbury region in 2010.Japan and Slovenia have a small increase in the fiscal deficit in this period.

Reductions of deficit in the period 2009-11 cannot be attributed to fiscal consolidation only. The economy in most OECD countries recovered in this period, which also had an impact on the development of the overall fiscal balance due to cyclical improvements on the balance. Countries like, for example, Germany and Turkey have experienced stronger improvements of the fiscal balance in this period than were anticipated in their consolidation plans.

Figure 1.4. Implemented deficit reductions from 2009 to 2011



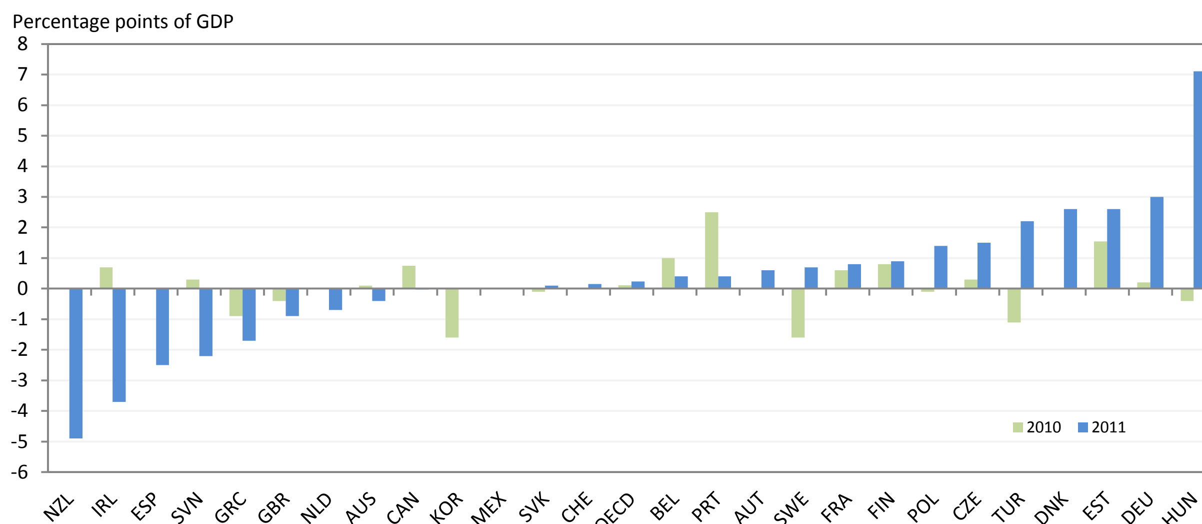
Notes: Deficits are general government financial balance as a per cent of GDP. The OECD average does not include Turkey.

Source: *OECD Economic Outlook, Vol. 2012/1*, OECD Publishing, http://dx.doi.org/10.1787/eco_outlook-v2012-1-en, (Economic Outlook No. 90 for Turkey).

Deviations from the deficit targets in 2010-11 vary

The OECD has calculated the deviation of the actual fiscal balance in 2010 and 2011 compared to the targeted fiscal balances described in last year's report. Estonia, Denmark, Germany, Hungary and Turkey have achieved a substantial positive deviation from the planned figures. Except Hungary, these countries belong to categories C and D and are not very affected by severe consolidation. Hungary has implemented substantial one-off revenue measures in 2011, for example by transferring the assets of the private sector pension fund to the government. Denmark, Estonia, Germany and Turkey have experienced a more solid economic recovery than expected, which has resulted in a better fiscal balance. Belgium, Poland and Portugal (categories A and B) also performed better than targets over the period, as well as Austria, the Czech Republic, Finland and France (category C). By contrast, New Zealand experienced a widening deficit in 2011 due to the negative fiscal shock of earthquakes in the Canterbury region. Greece and Ireland (category A), Slovenia and Spain (category B) and United Kingdom (category C) experienced a negative deviation from targets larger than 1% of GDP over the two year period (Figure 1.5).

Figure 1.5. Difference between implemented and planned fiscal balance in 2010 and 2011

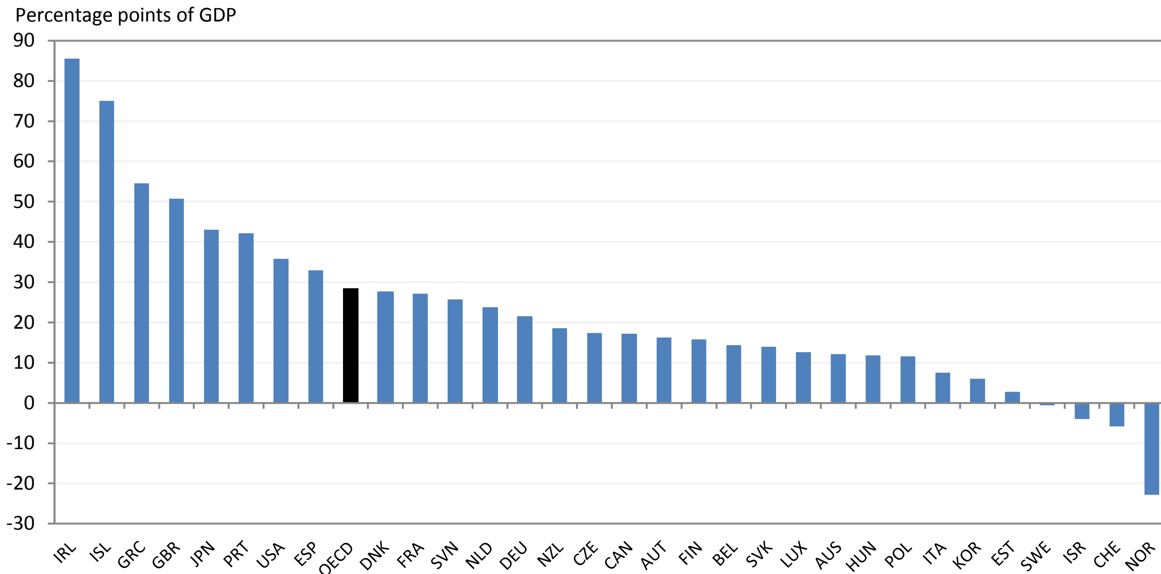


Notes: This figure shows the annual deviation of the fiscal deficit in 2010 and 2011 compared to the targeted fiscal deficit presented in last year's report. 2010 data for Denmark, Netherlands and Switzerland are not available and these countries are not included in the OECD average.

Gross debt has surged since the financial crisis

Gross debt in most OECD countries has surged after 2007. The OECD average rise in debt is 28.5% of GDP. Greece and Ireland (category A) and Iceland (category C, previously on an IMF programme) are the three countries with the largest increase of debt burdens. The debt in these countries has increased by 55% to 85% of GDP owing to the collapse of the banking sector in Iceland and Ireland, and to the severe problems of the Greek public finances. Portugal (category A), Spain (category B), Japan, the United Kingdom, and the United States (category C) have all seen their debt rise by 32.9% to 50.7% of GDP during the four years 2007-11 (Figure 1.3b). The only countries that have reduced general government gross debt during this period are Israel, Norway, Sweden and Switzerland: their debt has dropped by up to 5.8% of GDP (except Israel, all in category D with none or marginal consolidation needs).

Figure 1.6. Change of gross debt from 2007 to 2011



Note: Gross debt is general government gross financial liabilities as a per cent of GDP (SNA basis).

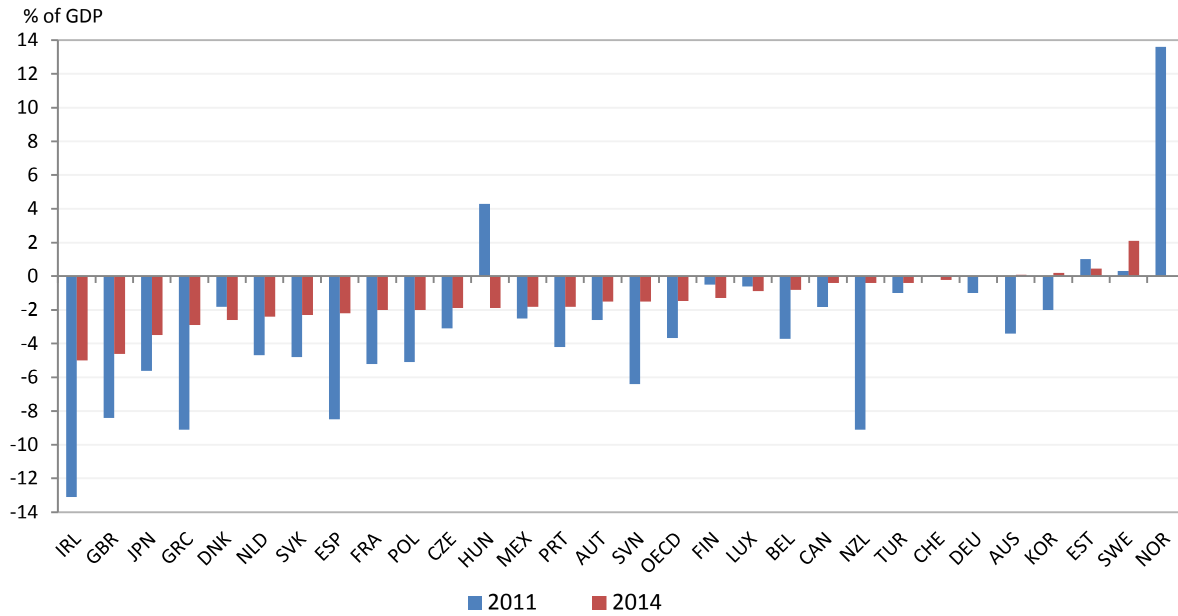
Source: *OECD Economic Outlook, Vol. 2012/1*, OECD Publishing, http://dx.doi.org/10.1787/eco_outlook-v2012-1-en and OECD calculations.

1.3.2. Deficit reduction targets for 2014

Considerable deficit reductions are planned in the next few years

From the fiscal position in 2011, 14 OECD countries that participated in the survey still intend to reduce their fiscal deficit by more than 2.2% of GDP (the OECD area average) by 2014 (Figure 1.7). As many countries have extended their consolidation plans beyond 2014, the total deficit reduction target will be larger. New Zealand is aiming for the largest reduction in its deficit over the forecast horizon, from 9.1% of GDP in 2011 to 0.4% of GDP in 2014. Greece, Ireland, Slovenia and Spain (categories A and B) are targeting a deficit reduction of 4.9-8.1% of GDP by 2014, though these countries in 2010 and 2011 missed the deficit targets considerably (see Figure 1.5 above). Poland (category B) and some other countries in category C (Australia, France and the United Kingdom,) aim for deficit reductions between 3% and 4% of GDP. Portugal (category A), Belgium and the Slovak Republic (category B) plan for deficit reductions between 2.4% of GDP and 2.9%. On the contrary, Hungary (category A) will see increased deficits, mainly due to large one-off measures in 2011 that resulted in a considerable fiscal surplus. Denmark also aims for increased deficits because of a budgeted fiscal stimulus in 2012 introduced by the new government. Finland experienced a better result than expected in 2010 and 2011 but the Finnish government expects a larger deficit in the following years.

Figure 1.7. Intended fiscal balance from 2011 to 2014

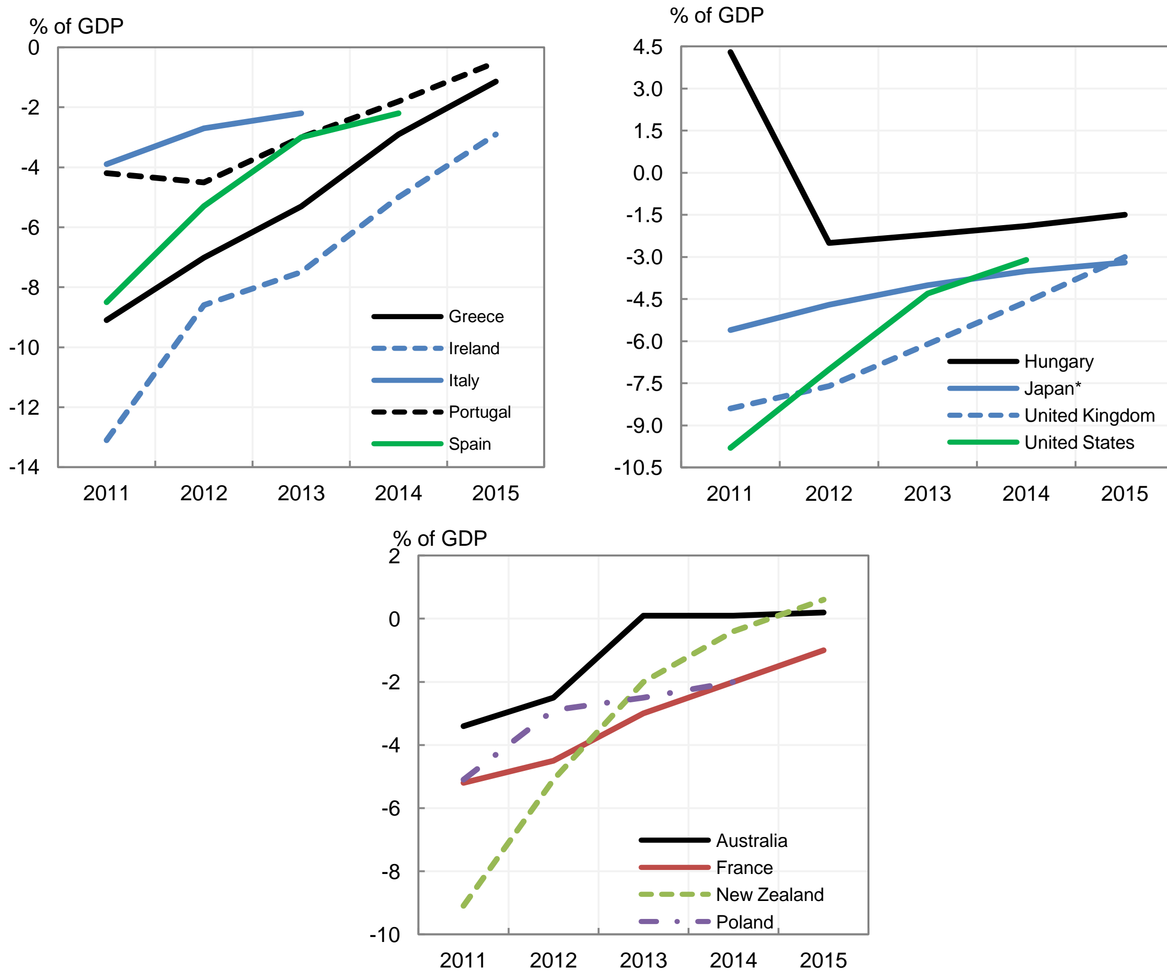


Notes: Deficit improvement is defined as the change from the overall fiscal deficit in 2011 to the targeted deficit in 2014. The change in the fiscal deficit is reported by the national authorities and/or calculated by the OECD. Denmark: 2013 instead of 2014. Japan: data based on last year's report. 2014 data for Norway are not available and this country is not included in the OECD average.

The pace of deficit reduction is fairly similar among countries with large consolidation

Figure 1.8 plots the deficit targets for countries with the largest deficit reduction targets. The figure also includes countries that had announced the largest consolidation programmes by the end of 2011 (see Section 1.5 below). From slightly different starting points, the projected pace in the improvement of deficits is fairly similar across most countries. One clear exception is Hungary which had an exceptional and large surplus in 2011 due to one-off measures.

Figure 1.8. Deficit trends 2011-15



Notes: The reported data are general government financial balances (on a Maastricht basis for EU countries) as a per cent of nominal GDP except the United States (federal government). Data on Italy and the United States are based on last years' report.

* Japan's deficit target is the primary balance, which is defined by the government as the fiscal balance minus net receivable interest. Data for 2011-14 are based on last years' report.

Box 1.4. Hungary

In 2011, the general government fiscal balance of Hungary surged to a surplus estimated at 4.2%, influenced by significant one-off items – primarily an asset transfer from private pension funds to the state pension pillar. Despite a relatively favourable fiscal position in 2011, three years of sizeable fiscal consolidation from 2006 to 2009, and additional planned consolidation for 2012 and beyond, a recent deterioration in the underlying balance called for renewed efforts in 2012. This need was recognised by the financial markets, as long-term interest and credit default swap rates on public debt have risen significantly since spring 2011, the sovereign rating was downgraded to non-investment grade, and several debt auctions failed or partially failed in late 2011. In addition, in January 2012 the European Council took action against Hungary because of cumulative structural deterioration in 2010 and 2011 of over 2% of GDP compared to a cumulative fiscal improvement of 0.5% of GDP recommended by the Council. The financial turmoil forced Hungary to approach the IMF and the EU for discussions on a new programme in 2012.

The Hungarian government plans for a fiscal deficit of 2.5% of GDP in 2012, which the European Commission estimates to reach 3%. The government has forecasted the debt-to-GDP ratio to decline each year from 80.6% due to one-off measures in 2011, continuing fiscal consolidation and impact of structural measures.

The current difficulties in Hungary comes after substantial fiscal consolidation in the past, adjustments of fiscal rules and the budgetary framework, and an EUR 12.3 billion programme with the IMF in 2008-10. More details are provided in the country note in Chapter 2.

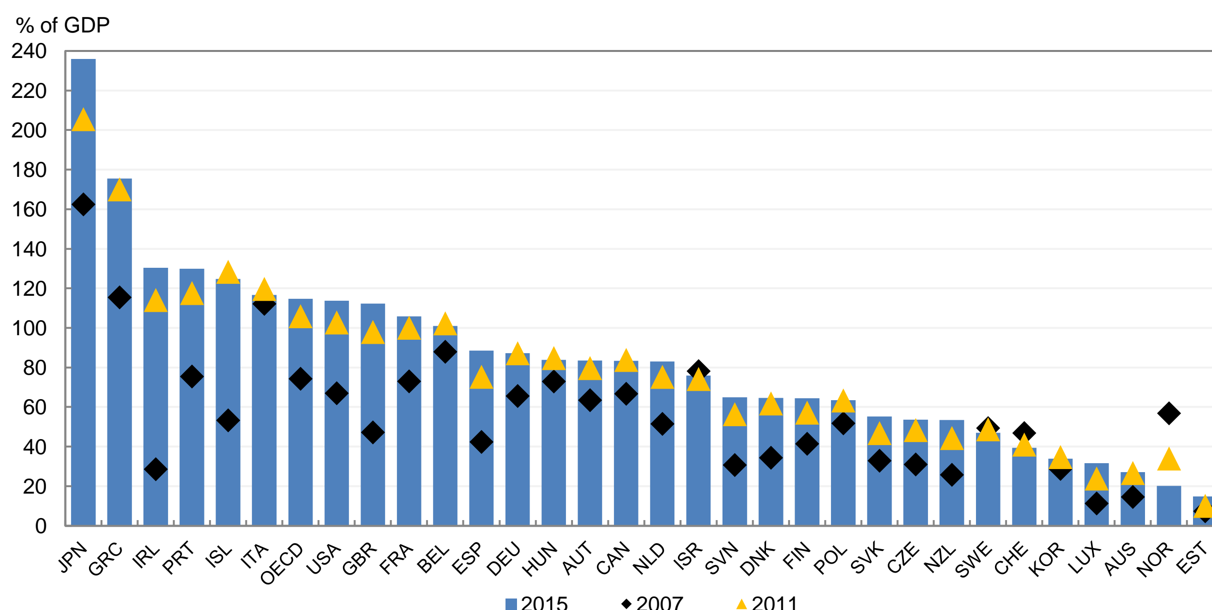
The debt level is forecasted to decline each ye due to one-off measures in 2011, continuing fiscal consolidation and impact of structural measures

1.3.3. Gross debt projections 2007-15: still rising debts

A country's gross debt level is an important indicator of long-term fiscal sustainability. In the last Economic Outlook (OECD, 2012) the OECD projected that the weighted average gross debt of OECD member countries would increase from 106% of GDP in 2011 to 115% in 2015 (Figure 1.9). This is a significant increase from the pre-crisis level of 74% of GDP recorded in 2007, when only three countries (Greece, Italy and Japan) exceeded a debt level of 100% of GDP. The OECD expects that, by 2015, ten OECD countries will carry a debt load in excess of 100% of GDP, namely Greece, Ireland and Portugal (category A), Belgium and Italy (category B), France, Iceland, Japan, the United Kingdom and the United States (category C) (Figure 1.9). Nine OECD countries are expected to reduce debt by 2013 (Belgium, Canada, Hungary, Iceland, Italy, Korea, Norway, Sweden, Switzerland). Except Norway, the improvement of the debt is only limited, between 0.4% of GDP and 3.6%.

The OECD expects that most countries will still face rising debt levels in the next three years. For six countries, the projected debt increase is more than ten percentage points: Ireland and Portugal (category A), Spain (category B), Japan, the United Kingdom and the United States (category C).

Figure 1.9. Evolution in gross debt across OECD countries (2007-15)



Notes: The reported data are gross government liabilities as a per cent of nominal GDP. Negative numbers indicate reduced debt. OECD average does not include Norway. Norway: 2013 instead of 2015.

Source: "*OECD Economic Outlook, Volume 2012/1*" (No. 91), OECD Economic Outlook: Statistics and Projections (database), OECD, http://dx.doi.org/10.1787/eco_outlook-v2012-1-en.

1.4. OECD member countries' fiscal consolidation plans

This section will focus on countries' fiscal consolidation plans: the size of consolidation, the time span, and the composition of consolidation, based on the country responses in the fiscal consolidation survey. The fiscal consolidation plans are expressed as a cumulative effort since the financial crisis. For most countries, the fiscal consolidation started in 2010. Some countries already made a decisive and prompt effort in 2009, which is also included in this study. Fiscal consolidation implemented in 2008 is not included (for example, in Estonia and Hungary).

1.4.1. Implemented fiscal consolidation 2009-11 and consolidation plans 2012 and beyond

Most OECD countries have revised their announced consolidation plans

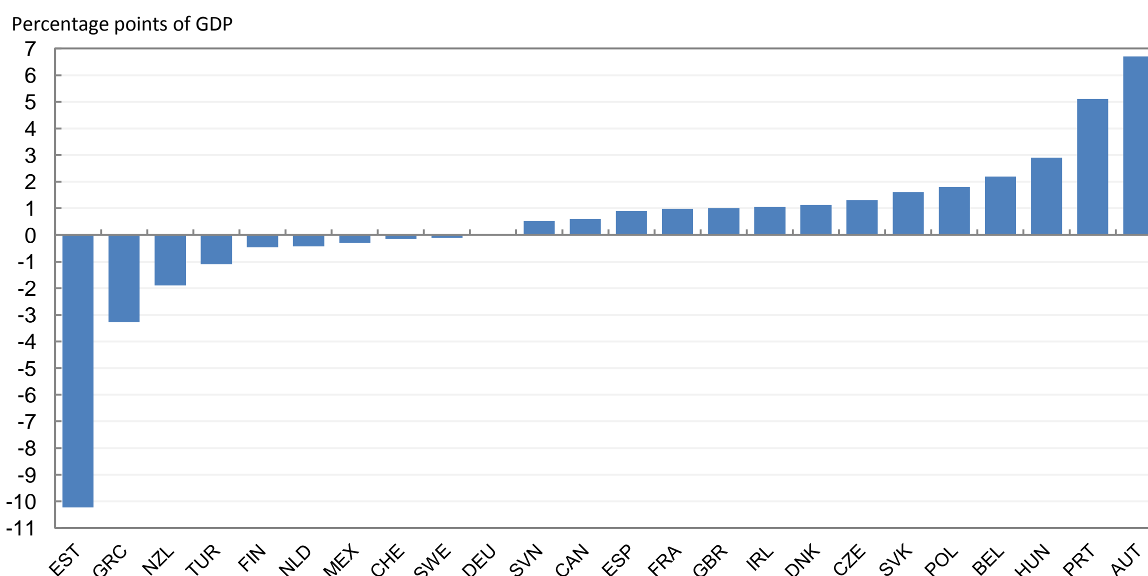
This sub-section will analyse the impact of fiscal consolidation partly from the perspective of what has been implemented up to 2011, and partly from the perspective of plans for 2012 and beyond. The first topic is the impact of revisions of fiscal consolidation plans.

Figure 1.10 shows the reported change of cumulative consolidation volume (2009-15) observed in the survey this year compared to the described consolidation in last year's report. The cumulative consolidation volume reflects the countries' total consolidation, from 2009/10 when first adopted up to the end of the present plan[9]. Two different approaches emerge. Most OECD countries with fiscal consolidation

[9] There are some caveats on the comparability of the countries. Some countries did not provide data for the implemented consolidation (2009/10-11). For the most striking examples (like Greece), we have included the consolidation described in last year's report as if it were implemented as planned. Some countries did not provide cumulative data. Wherever possible, we have recalculated the data into cumulative consolidation.

have increased the total consolidation volume. For example Hungary and Portugal (category A) and Austria (category C) have adopted substantially larger consolidation plans than reported last year, by 2.9%, 5.1% and 6.7% of GDP respectively. Also Belgium, Poland and the Slovak Republic (category B) have increased their consolidation plans between 1.6% and 2.2% of GDP. On the contrary, some countries report to have reduced the total consolidation volume, of which Estonia (category D) is the main example. Estonia has implemented large front-loaded consolidation and is now gradually removing the planned expenditure measures, thus reducing the total cumulative impact of consolidation implemented from the start of the fiscal crisis in 2008. Greece also appears to have reduced its total cumulative consolidation compared with the description in last year's report, by 3.3% of GDP. The main reason for this reduction is that Greece has reported a considerable lower impact of consolidation implemented in 2011 than planned last year, 2.5% of GDP against the planned impact of 6.5% of GDP.

Figure 1.10. Revision of total consolidation volume 2009-15



Notes: The figure shows the changes in the cumulative fiscal consolidation volume in OECD countries with fiscal consolidation. Positive (negative) figures indicate an increase (reduction) of fiscal consolidation as a percentage of GDP compared to the consolidation reported in last year's report.

The time span of the consolidation plans is extended

The time span of the consolidation plans is more or less extended one year compared to the situation described in last year's report. Approximately 80% of the consolidation plans cover the period up to 2014, and more than half of the plans cover the period up to 2015. One plan also includes 2016 (Austria). Two plans end already in 2013 (Denmark and Portugal). The consolidation plans normally follow the time span of the medium-term perspective of the budget estimates. Table 1.3 shows the distribution of plans according to the planning horizon this year (row 2012) compared to the plans described in last year's report (row 2011). The columns show how many consolidation plans continue up to the different years.

Table 1.1. Time span of consolidation plans 2009-15 (out of 30 countries)

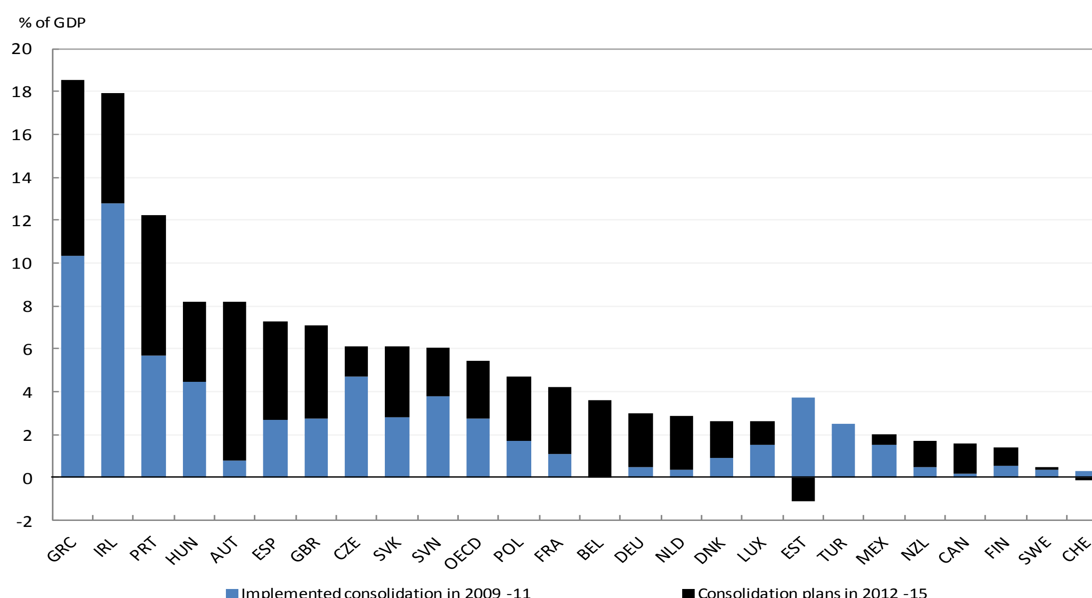
	Total	2011	2012	2013	2014	2015	2016
2012	24*			2	6	15	1
2011	25	1	2	8	11	2	1

* The following countries did not provide data on an announced consolidation plan with a specific volume of consolidation: Australia, Iceland, Japan, Korea, Norway and Turkey (from 2012).

The size of cumulative fiscal consolidation plans (2009-2015) varies significantly

For countries with a consolidation plan, the size of the plan varies significantly depending on the country's fiscal position and the current status and time frame of the consolidation plan. Unsurprisingly, countries with the largest economic imbalances and the most rapid deterioration in public finances require larger fiscal consolidation. The three countries with programmes with the IMF/EU/ECB (category A: Greece, Ireland and Portugal) have adopted and announced the largest fiscal consolidation packages, all above 12% of GDP (Figure 1.11). Seven countries have announced plans ranging between 6.0% and 8.2% of GDP: Hungary (category A); the Slovak Republic, Slovenia and Spain (category B); and Austria, the Czech Republic and the United Kingdom (category C). Belgium and Poland (category B), and France and Germany (category C) have announced plans with a cumulative impact of between 3% and 5% of GDP.

Figure 1.11. Implemented (2009-11) and planned consolidation (2012-15)



Notes: The data are the sum of annual incremental consolidation from 2009/10 until 2015 as reported by the national authorities. Only the following countries reported consolidation in 2009: Estonia, Hungary, Ireland, Poland and Slovenia. Hungary's 2007-08 consolidation is not included. Austria reports consolidation until 2016. Belgium is not included in the OECD average because data on implemented consolidation 2010-11 are not available for this country. The following participating countries have not reported an announced concrete consolidation plan and are not included in the figure: Australia, Iceland, Korea and Japan. Norway does not apply a consolidation plan.

Half of the planned cumulative consolidation for 2009-15 is already implemented

In total, around 60% of the countries that have announced consolidation plans have implemented front-load fiscal consolidation efforts in 2010 and 2011 (more than 40% of total announced consolidation);

down from 66% reported previously. The OECD countries of category A, for example, have the largest consolidation plans and have tended to frontload those plans. Greece and Ireland have implemented large consolidation efforts in 2010 and 2011; 10.3% and 12.8% of GDP respectively. By these efforts, the two countries have already implemented more than 50% of the total announced consolidation volume of 18.5% and 17.9% respectively.

Front-loading consolidation is not only associated with the countries in category A that are obliged to consolidate by an agreement. For countries in the other categories, however, it is mostly those with smaller consolidation needs that have chosen to front-load consolidation. In category B, only the Slovak Republic and Slovenia are front-loading. In category C, only the Czech Republic is front-loading. Thus many countries in categories B and C have scheduled the main part of consolidation in the next years. Notwithstanding, in average the OECD countries with a consolidation plan have implemented 51% of the announced consolidation in 2009-11.

The only countries that have started to gradually reverse the impact of fiscal consolidation are Estonia and Switzerland. Estonia has implemented a consolidation volume of 3.7% of GDP already, but has ended the expenditure cuts and announces only gradually diminishing revenue measures as from 2012. Turkey has not reported fiscal consolidation as from 2012.

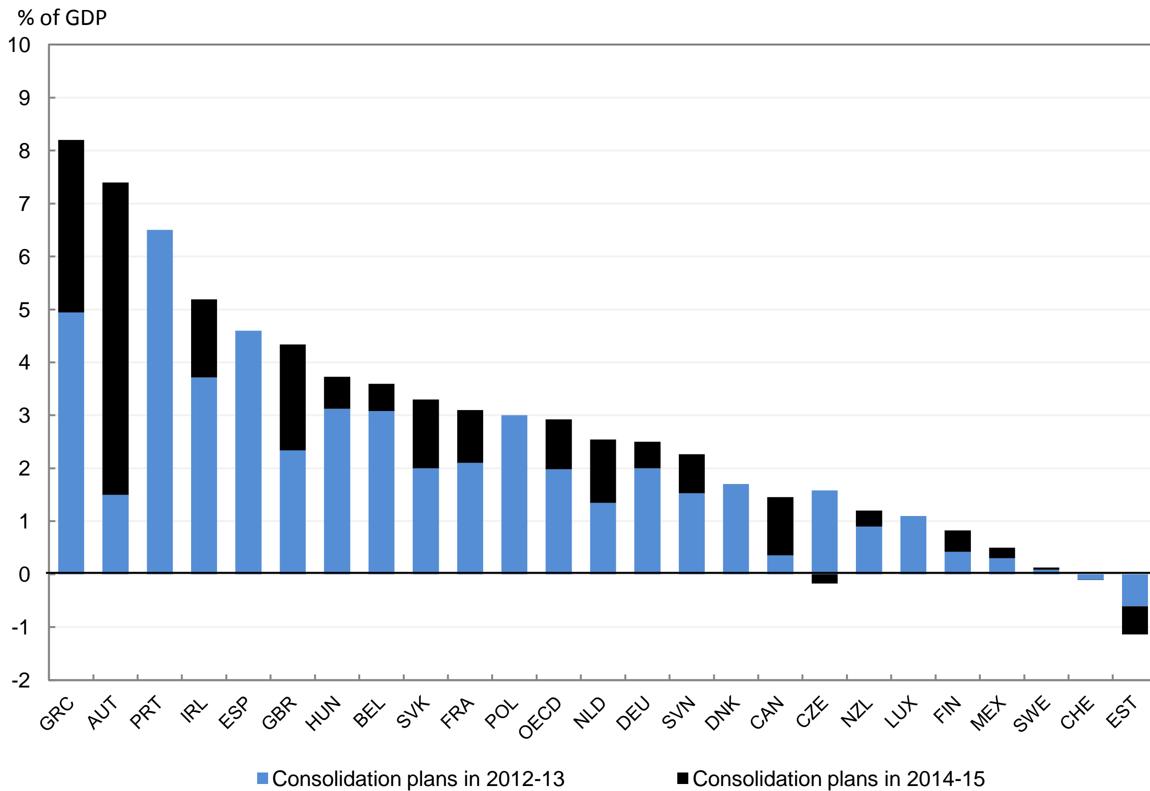
Planned fiscal consolidation for 2012 and beyond

Notwithstanding having implemented substantial fiscal consolidation, the three countries with IMF/EC/ECB programmes (Greece, Ireland and Portugal) still have a substantial remaining fiscal consolidation of 5.2-8.2%. Also Austria have announced a considerable fiscal consolidation in 2012 and beyond of 7.3% of GDP (Figure 1.12). Seven countries have a remaining fiscal consolidation of between 3% and 5% of GDP: Hungary (category A), Belgium, Poland, the Slovak Republic, Spain (category B), France and the United Kingdom (category C).

Most OECD countries which have announced a fiscal consolidation plan with remaining fiscal consolidation in 2012 and beyond have planned to implement the largest part by 2013. Portugal plans to implement fiscal consolidation in 2012-13 of 6.5% of GDP in order to complete the requirements of the programme with the EU and the IMF. Greece (4.9% of GDP), Ireland (3.7%) and Spain (4.6%) will also implement large fiscal consolidation in 2012-13. Belgium, Hungary and Poland plan to implement about 3% of GDP in 2012-13. The average of the OECD area is calculated at 1.8% of GDP in 2012-13 and 0.8% in 2014-15.

Estonia and Switzerland are the only countries that are planning to decrease the total fiscal consolidation from 2012 and beyond. Turkey has not reported fiscal consolidation as from 2012.

Figure 1.12. Consolidation plans in 2012-15



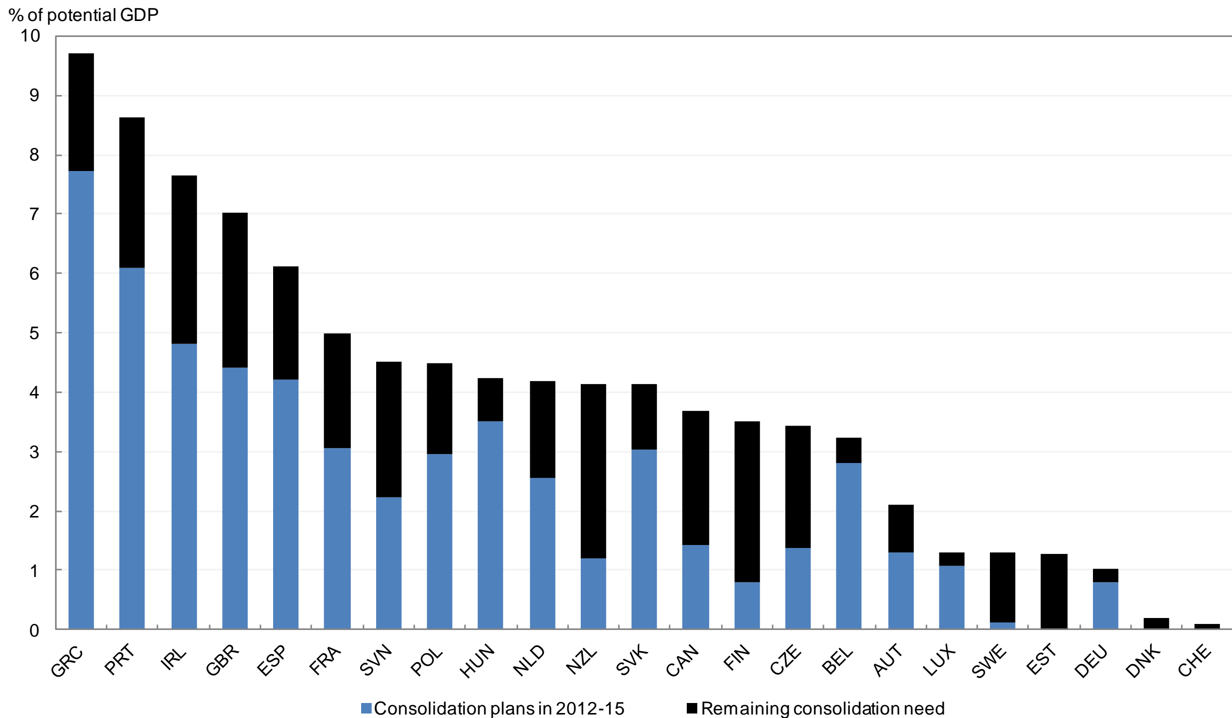
Notes: The data are the sum of annual incremental consolidation from 2012-15 as reported by the national authorities. Austria reports consolidation until 2016. Turkey did not report consolidation from 2012. The following participating countries have not reported an announced concrete consolidation plan and are not included in the figure: Australia, Iceland, Korea and Japan. Norway does not apply a consolidation plan.

Remaining consolidation needs (OECD estimates)

The governments of most OECD countries are well under way implementing fiscal consolidation. If the governments' consolidation efforts remain consistent with the announced consolidation plans, the countries will take a considerable step on the path towards a more sustainable fiscal position. This applies especially to the countries in category A: Greece, Hungary, Ireland and Portugal. Also Belgium, Poland, the Slovak Republic and Spain (category B) will achieve a substantial part of the required average consolidation to curb gross debt-to-GDP ratio to a sustainable level (Figure 1.13).

The announced consolidation will be enough to stabilise debt in most of the countries, but curbing debt-to-GDP ratio to 60% will require a stronger improvement in the underlying primary balance than the announced consolidation plans (2012-15) will provide. This assessment takes for granted that all measures in the announced consolidation plans are structural. We know that some measures are one-offs. Furthermore, the assumptions made by the governments may differ from the assumptions in the OECD calculations of long-term consolidation needs, for example on economic growth. Therefore the estimated remaining consolidation requirement will expresses a minimum effort to achieve the debt targets in the long run, relative to the consolidation efforts already planned by the governments.

Figure 1.13. Fiscal balances need to be improved more to achieve 60% debt-to-GDP ratios



Notes: The remaining consolidation needs is the difference between the required average improvement in the underlying primary balance to achieve a gross general government debt-to-GDP ratio equal to 60% of GDP by 2030 (by 2040 for Japan) and the consolidation announced by the government for the period 2012-15. For Austria, Belgium, Denmark and Germany the underlying primary balance is used in the calculation of consolidation (short-term 2012-15 and long-term by 2030). Consolidation requirement is not available for Mexico and Turkey. Consolidation plans in 2012-15 are not available for Australia, Iceland, Japan and Korea. Estonia and Switzerland announced a reversed consolidation in their plans for 2012-15 (not included in the calculation). For Denmark it is estimated a reversed consolidation in 2012-15 (not included in the calculation).

Source: "OECD Fiscal Consolidation Survey 2012", *OECD Economic Outlook, Vol. 2012/1*, OECD Publishing, Paris, http://dx.doi.org/10.1787/eco_outlook-v2012-1-en, and OECD calculations.

Box 1.5. Calculation of the remaining fiscal consolidation requirement

The calculation of consolidation required to stabilise debt or to reduce debt levels to 60% of GDP by 2030 uses 2011 as the base year (Figure 1.3 and Box 1.2). Remaining consolidation needed is calculated by subtracting the consolidation announced for the period 2012-15 (Figure 1.5). Consolidation for the period 2012-15 is calculated as a per cent of the OECD estimates of potential GDP from the "OECD Economic Outlook, Vol. 2012/1" assuming all measures are structural. Countries included in Figure 1.3 but not in Figure 1.13 did not provide data.

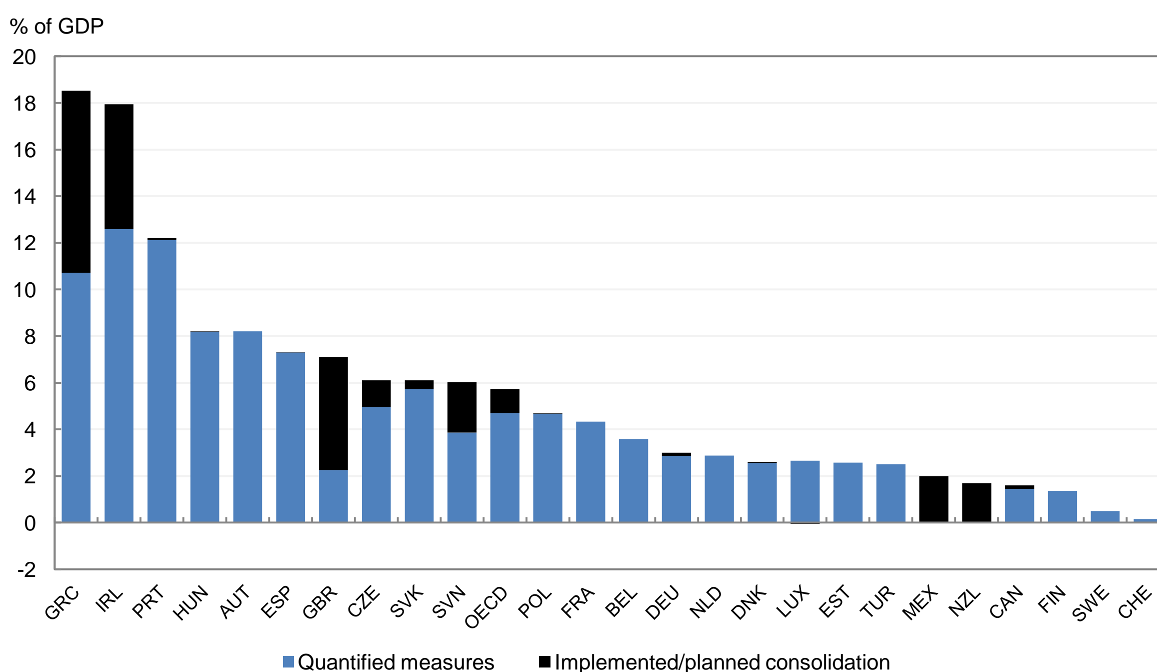
1.4.2. Most countries have specified and quantified measures in their plans

Most of the consolidation plans for 2009-15 are quantified with detailed specific measures. However, some countries did not provide an overview of detailed concrete measures. Some countries did not spell out measures over all years, and for some countries the specification of measures in all years did not completely add up to the total announced plan covering the same period.

The countries in category A have announced the most ambitious consolidation plans in order to restore market confidence and public finances. The two countries with the largest consolidation, Greece and Ireland, have specified about two-thirds of the total consolidation plan. Hungary and Portugal have provided a complete specification of the consolidation plan. These countries will be assessed quarterly by the EC, the ECB and the IMF (the troika) regarding progress in implementing the fiscal consolidation (Figure 1.14).

Most of the countries with large deficits in category C have specified the consolidation plan completely. However, for the United Kingdom, a number of announced expenditure reductions in areas such as administration, defence, transport, etc., are not included in Figure 1.14 as these reductions are not quantified on an annual basis. These measures are well specified, but the impact over years and in total has been difficult to estimate.

Figure 1.14. Share of quantified measures in the implemented/planned consolidation (2009-15)



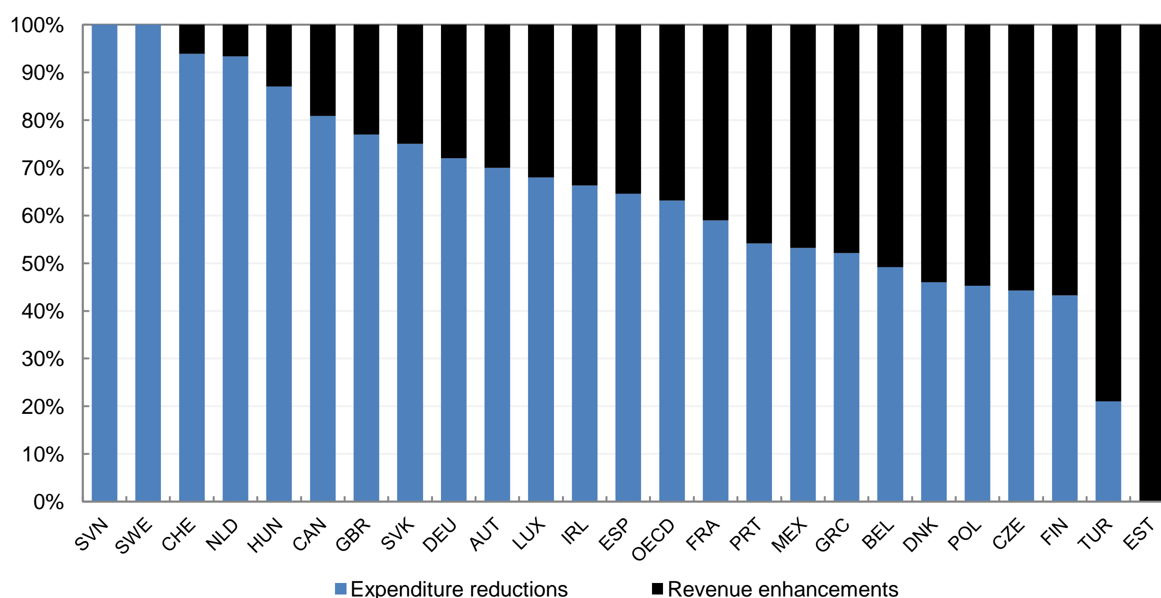
Note: The figure shows the cumulative consolidation volume and the share of quantified expenditure and revenue measures as reported in the country notes for the period 2009-2015 (2016 for Austria). Data for Iceland and Korea are not available. Data on quantified measures for Mexico and New Zealand are not available (not included in the OECD average). Australia and Japan reported quantified measures (0.7 and 2.8 % of GDP, respectively) although they did not provide fiscal consolidation plans. Norway does not apply a consolidation plan.

1.4.3. Composition of measures: most countries rely on expenditure reductions

The survey responses indicate that fiscal consolidation for 2009-15 has a slightly stronger focus on expenditure measures than last year, weighted on average two-thirds towards expenditure reductions and one-third towards increased revenues (Figure 1.15). Still there is a significant variation in the composition of consolidation measures. A number of countries have structured their consolidation mostly (more than 80%) around expenditure measures. Except for Hungary (category A) and Slovenia (category B), these are typically countries with smaller consolidation plans. Some countries with large consolidation plans focus their consolidation on expenditure reductions between the OECD average of 63% and 80%: Ireland (category A), Spain (category B), Austria and the United Kingdom (category C). In contrast, Estonia

(category D) and Turkey (category C) rely on tax increases for the majority of their consolidation, taking into account that these countries are withdrawing from consolidation. Some countries with larger consolidation including Greece and Portugal (category A) and Belgium (category B) are choosing to take the middle ground. Poland (category B) is the only country with a substantial consolidation plan which structured its consolidation with a majority around revenue enhancement measures.

Figure 1.15. Expenditure-based versus revenue-based measures (2009-15)



Note: Figures are the cumulative contribution to consolidation from expenditure and revenue measures.

1.5. Major consolidation measures

After presenting basic background information on the composition of expenditure and revenue in OECD member countries, this section presents the types of consolidation measures and how often they are targeted or mentioned in the consolidation plans of 2009-15. By counting the measures in this way (frequency), it is possible to provide information about the areas on which countries are focusing when reducing expenditures or enhancing revenues. Information on the impact in per cent of GDP and on cross-country comparison will be given for all measures that are quantified in the consolidation plans. Likewise, this section compares the frequency and impact of the current measures with those described in the report last year to find out how OECD countries have revised their consolidation priorities and the measures dealing with changes in the macroeconomic environment.

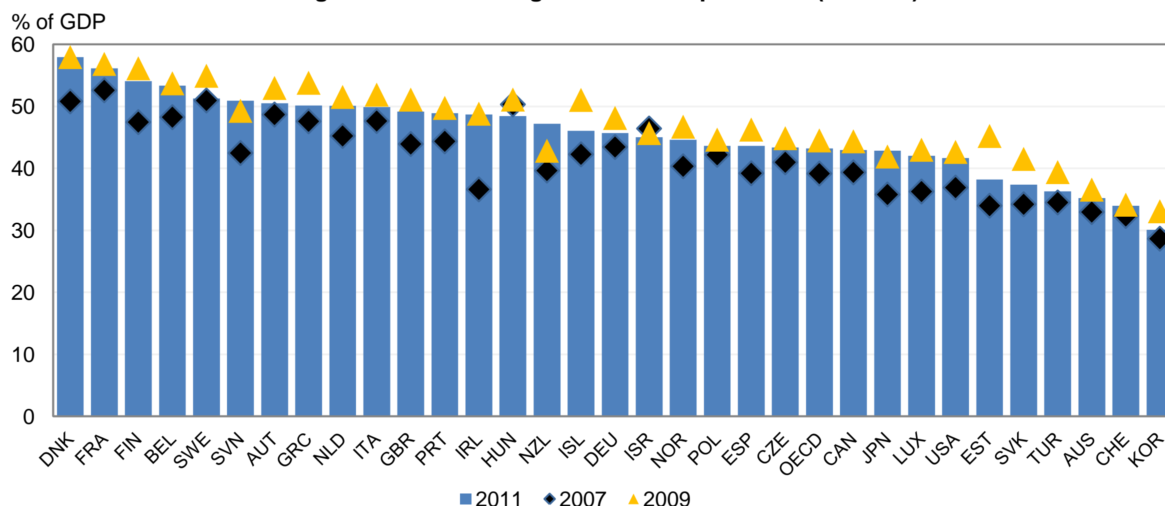
1.5.1. Expenditure in OECD member countries

The share of government expenditures varies across OECD member countries

Government expenditure as a share of GDP indicates the size of the government and reflects historical and current political decisions about its role in providing services and in redistributing income. However, a large part of the variation reflects the different approaches to delivering goods and services and providing social support, rather than true differences in the resources spent. For instance, if support is given through tax concessions rather than direct expenditure, expenditure-to-GDP ratios will naturally be lower (OECD, 2009c).

The OECD average ratio of expenditure to GDP was just 39% in 2007, and it increased in 2009 to 45% due to worldwide adoption of various fiscal stimulus packages. In 2011, it decreased to 43% due to the initiation of fiscal consolidation effort by numerous governments. This trend of fluctuation in terms of the ratio occurred in almost all of OECD member countries during this period, though the variation of the ratio was usually more significant for many debt-ridden countries such as Iceland and Ireland, and for countries that have already implemented large consolidation, like Estonia (Figure 1.16). However, there is no evidence of a one-to-one correlation between expenditure as a percent of GDP and the cumulative fiscal consolidation.

Figure 1.16. General government expenditure (2007-11)



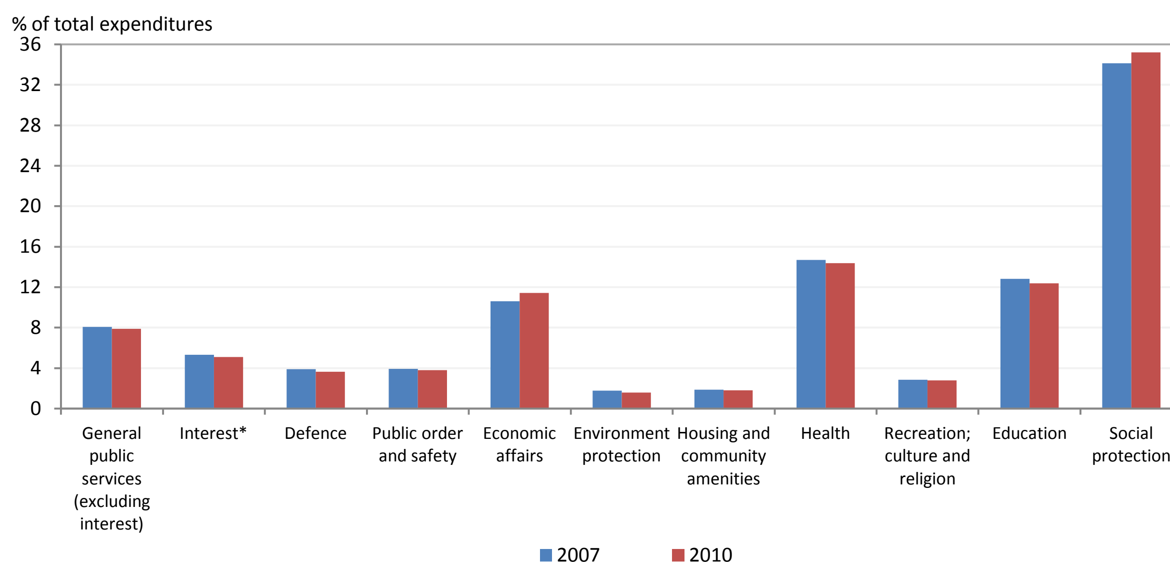
Notes: OECD average does not include Turkey.

Sources: Economic Outlook Volume 2012/1, No.91 (Economic Outlook No. 90 for Turkey).

Welfare and health are "big ticket" spending items

Governments can choose to spend their financial resources on a variety of goods and services, such as providing child care, building infrastructure and subsidising alternative energy sources. As of 2010, social protection including social welfare is the largest category of spending and is on an increasing trend when compared with 2007. The second-largest share of total expenditures is spent on health, followed by education, which are both on a slightly decreasing trend from 2007 (reduced by 0.3 percentage points and 0.4 percentage points since 2007 respectively). Economic affairs also account for a major part of GDP, and are on an increasing trend since the financial crisis. Payments on interest constitute around 5% of public expenditures across the OECD area. In general, OECD member countries spend the least amount of government financial resources on environmental protection and on housing and community amenities (Figure 1.17).

Figure 1.17. Structure of general government expenditures (2007-10)

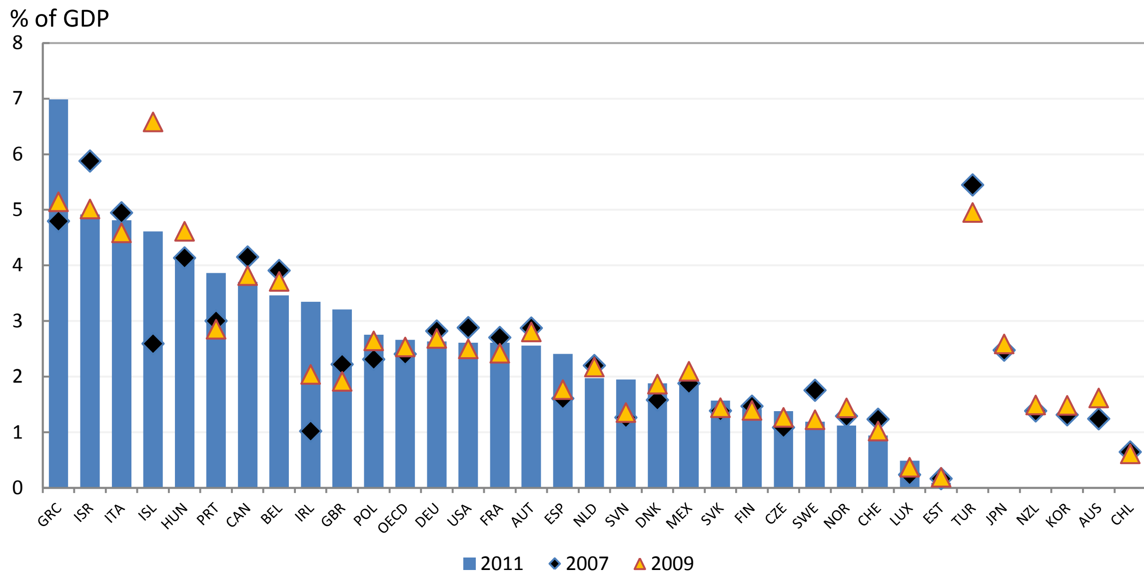


Note: Interest expenditures are part of general public services (according to the COFOG classification).

Source: OECD National Accounts Statistics.

Figure 1.18 shows that, in the OECD area, interest payments by governments represented on average 2.7% of GDP in 2011, a slightly increasing trend since 2007. In particular, the countries with an IMF/EU programme (category A: Greece, Ireland, Portugal) and some countries under close market scrutiny (category B) such as, Slovenia and Spain showed a significant increase in interest payments during 2009-11. The United Kingdom also demonstrates the same pattern of increase. In contrast, interest payments decreased over the same period by 2.0% of GDP in Iceland and 0.5% of GDP in Hungary due to completion of their IMF programmes (Figure 1.18). Although the amount a government pays on interest varies greatly among OECD member countries, the expenditure on interest payments was much higher than the OECD average in many debt-ridden countries such as Greece, Hungary, Iceland, Italy and Portugal, as expected (Figure 1.18).

Figure 1.18. General government interest payments (2007-11)



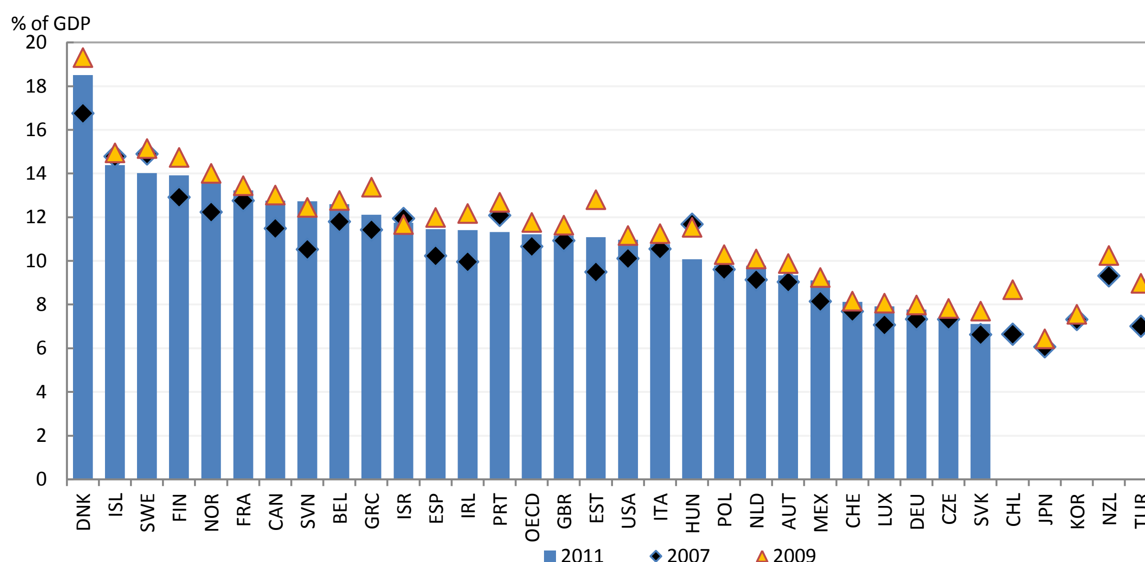
Note: The data of Australia, Chile, Japan, Korea, New Zealand and Turkey for 2011 are not available and these countries are not included in the OECD average. The data for 2010 instead of 2011 were used for Canada, Israel, Mexico, Switzerland and the United States.

Source: OECD National Accounts Statistics.

But employee compensation in general government has decreased due to wage cuts

The public sector is human capital intensive. Compensation of employees in general government varies across member countries, and it is comparatively lower in Japan and Korea – around 6-7% of GDP in 2009 – than in the Nordic countries – above 14% of GDP in 2009 (Figure 1.19). Likewise, the wage bill in the OECD area amounts to 11.8% of GDP in 2009 on average, decreasing to 11.2% of GDP in 2011 due to wage cuts and staff reductions across OECD countries. Not surprisingly, the fluctuations of the compensation level during that period were much higher in the countries with an IMF/EU programme (category A) such as Greece, Hungary and Portugal than most of the other member countries. Moreover, Estonia and some Nordic countries such as Denmark, Finland and Sweden also reduced the compensation level by more than the OECD average (Figure 1.19).

Figure 1.19. General government compensation of employees (2007-2011)



Notes: Data for Australia are not available. The 2011 data for Chile, Japan, Korea, New Zealand and Turkey are not available and these countries are not included in the OECD average. Data for 2010 instead of 2011 were used for Canada, Israel, Mexico, Switzerland and the United States.

Source: OECD National Accounts Statistics.

1.5.2. Major expenditure reduction measures

In this report as in last year's report, consolidation on the expenditure side is presented according to three categories:

- operational measures;
- programme measures;
- other measures;

The first category, operational measures, can be broadly defined as expenditure reductions of governments' running costs. These measures include wage or staff reductions, government reorganisation, and across-the-board efficiency reductions in the administration.

The second category, programme measures, reflects expenditures by functional classification in the *OECD National Accounts*. This classification includes health care, social benefit systems, old-age pensions, capital infrastructure, official development assistance, and transfers to sub-national government.

In the *OECD National Accounts*, the classification of expenditure by function also includes personnel costs – for example, doctors' and teachers' salaries are included in health and education. Therefore, to avoid double accounting in the "operational" and "programme" categories, this report separates wage and staff measures from programme measures.

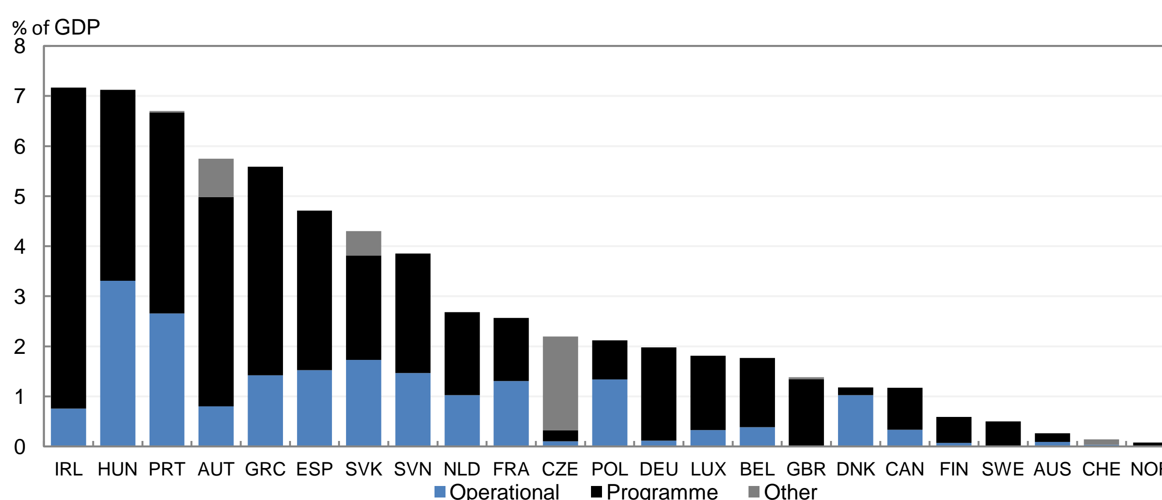
The third category, other measures, includes measures that do not naturally fall into the other two categories. Measures in this category are mostly overall spending cuts or freezes on public consumption.

In this section, the expenditure reduction measures cover the whole period of the countries' consolidation plans, from 2009 to 2015 (2016 for Austria) depending on the announced plan in each country.

The impact of quantified expenditure reductions reflects external pressure and the extent of debt

A total of 23 countries provided quantified data on their expenditure reduction measures. When it comes to the impact of quantified expenditure reductions as a per cent of GDP in the consolidations plans, countries with an IMF/EU programme are reducing expenditure the most, as is to be expected. Hungary, Ireland and Portugal (all in category A) topped the list with a reduction of more than 6% of GDP, followed by Austria (category C), Greece (category A) and countries observed closely by the market (category B: the Slovak Republic, Slovenia and Spain), all with a reduction of more than 3% of GDP. Some countries with substantial deficit (category C: Czech Republic, France, Netherlands) and Poland (category B) plan quantified spending cuts of more than 2% of GDP (Figure 1.20).

Figure 1.20. Quantified expenditure reductions (2009-15)



Note: Data are not available for Iceland, Korea, New Zealand and Turkey. The data on operational measures for the United Kingdom are not available. Austria has reported measures up to 2016. Estonia, Japan and Mexico did not apply any expenditure measures.

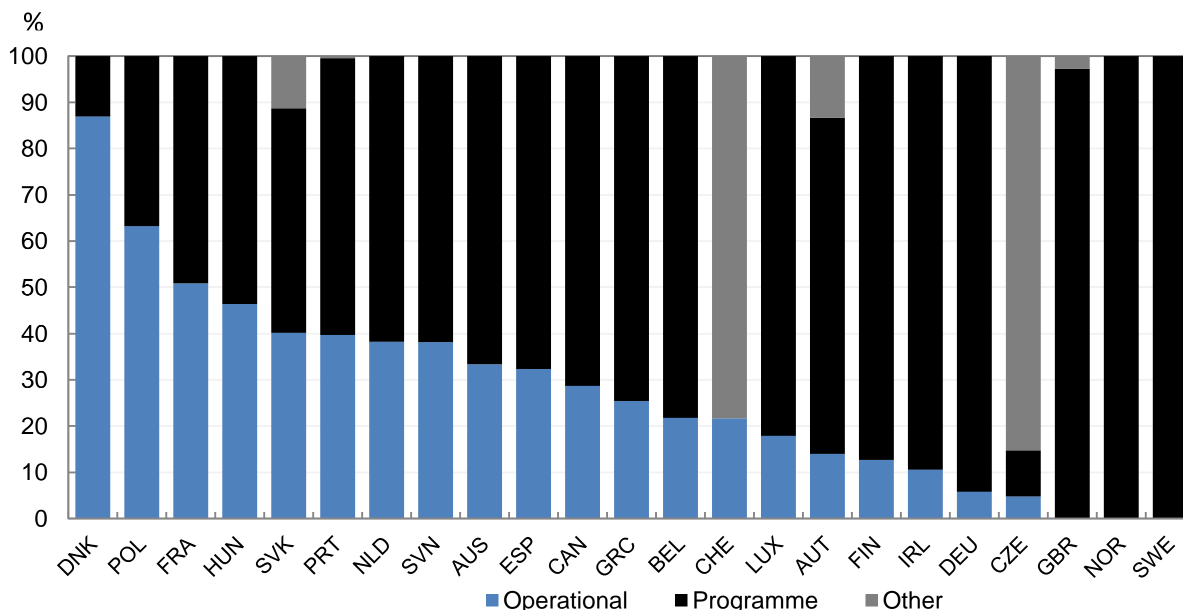
Most countries focus on quantified expenditure reductions in programmes for 2009-15

In most countries, programme expenditure measures contribute more to consolidation than operational measures, as was the case in last year's report. In particular, countries with an IMF/EU programme (category A) such as Ireland and Greece depend more than 70% on programme measures to reach the fiscal deficit reduction target effectively. However, Hungary and Portugal (category A) dedicate around 40% of their expenditure reduction measures to operational measures, including wage cuts, to show the strong commitments of government to stabilize public finance. Likewise, a few countries assign a large portion of their expenditure reduction measures to operational expenditure. For example, operational expenditure reduction amounts to 87% of total expenditure reduction measures in Denmark (out of a small total) and 63% in Poland (Figure 1.21).

Only two countries have grouped a substantial part of its consolidation as other expenditure measures. In the Czech Republic this relates to across the board decreases in expenditures of 1.9% of GDP. In

Switzerland the impact of these measures are only 0.1% of GDP and relates to budget adjustments regarding changes in the inflation and in interest rents.

Figure 1.21. Quantified expenditure reduction measures – composition (2009-15)



Note: Data are not available for Iceland, Korea, New Zealand and Turkey. Data on operational measures for the United Kingdom are not available. Estonia, Japan and Mexico did not apply any expenditure measures.

Box 1.6. Fiscal policy in Norway

Fiscal policy in Norway is guided by the fiscal rule, stipulating a gradual phasing-in of oil revenues in the Norwegian economy in line with the expected real return on the Government Pension Fund Global (formerly the Petroleum Fund), estimated at 4%. The fiscal rule permits spending more than the expected return on the Fund in a cyclical downturn, while the use of oil revenues should be below the expected return when capacity utilisation in the economy is high. This room for manoeuvre was used in 2009 to mitigate the effects of the financial crisis on production and employment. In 2011, the use of oil revenues will again be below the 4% path.

Due to the oil revenues, the central government in Norway has run a fiscal surplus for several years: 10.7% in 2009 increasing to 13.6% in 2011. The 2012 fiscal surplus is estimated at 11.5% of GDP, and central government net assets are estimated at 155.8% of GDP in 2012.

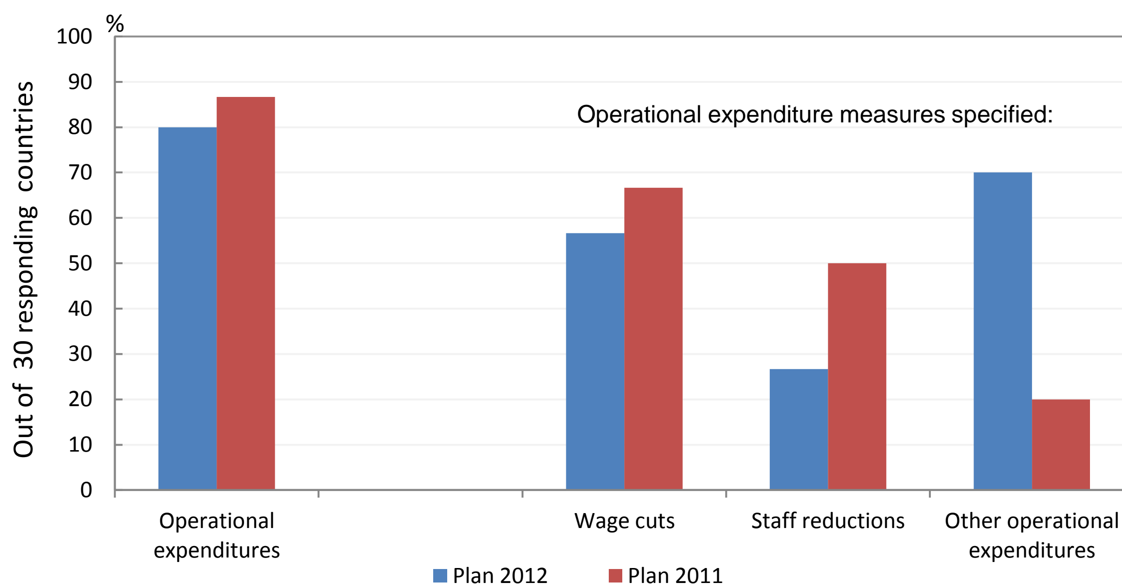
Due to this favourable financial condition, Norway does not have a consolidation plan. Notwithstanding, the government included some expenditure cuts in the 2012 budget of 0.1% of GDP (NOK 1.7 billion). The largest part of the cuts involved a reversal of some unemployment benefits that were granted during the financial crisis (NOK 240 million), followed by reduced transfers to the regions (NOK 220 million) and several smaller cuts.

Major operational measures

Among the OECD countries participating in the fiscal consolidation survey, 80% have still marked operational expenditures for savings, although this percentage is a bit lower than in last year's report. Wage cuts and staff reductions are on the reform agenda less frequently than was the case last year, which implies that some countries have changed their use of these measures. Among the participating countries,

57% include wage cuts and 27% include staff reductions (Figure 1.22). However, a number of countries have unspecified operational savings, *i.e.* no details are provided concerning reductions in wages, staffing or general operational expenses. Examples include the temporary expenditure rule and ceiling on new spending in Poland (category B) and rationalisation of services and control of operational expenditure in general government in Portugal (category A).

Figure 1.22. Operational expenditure reduction measures – frequency (2009-15)

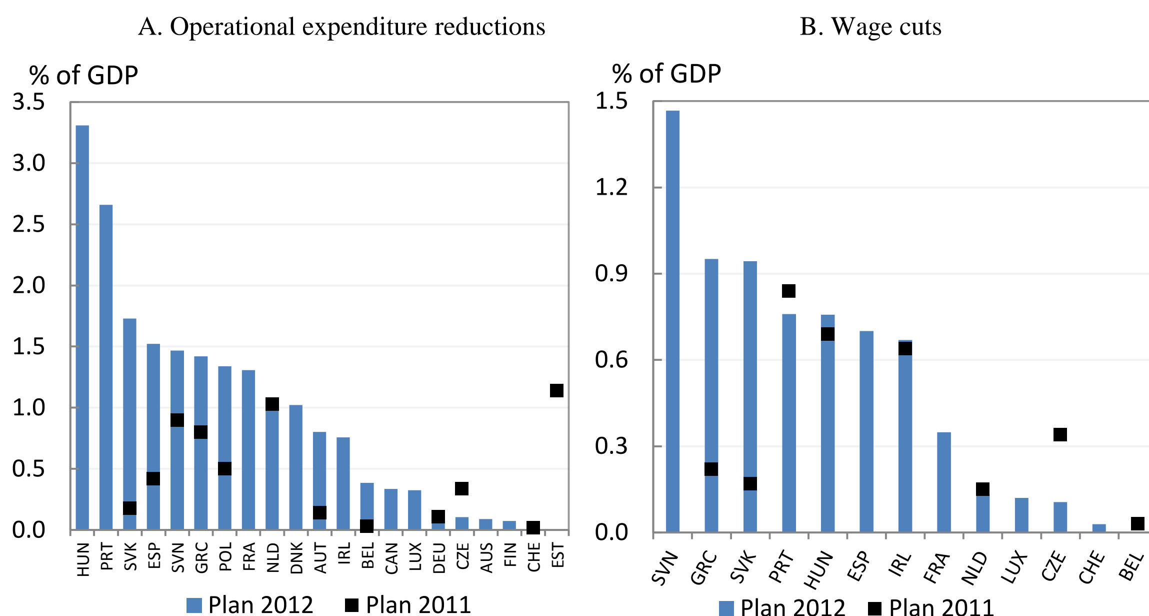


The countries with an IMF/EU programme (category A) and the countries under market scrutiny (category B) have announced far-reaching and very substantial operational cutbacks. In Hungary (category A), the cuts of operational measures amount to as much as 3.3% of GDP, including a freeze of the gross wage bill and a freeze of operational budgets. Greece (category A), the Slovak Republic, Slovenia and Spain (category B) also increased the amount of operational expenditure cuts to 1.4%, 1.7%, 1.5% and 1.5% of GDP respectively compared with last year, reflecting the external pressure for the normalisation of public finance. Portugal (category A) also plans to cut overall operational expenditures by around 2.7% of GDP (Figure 1.23A).

Slovenia (category B) topped the list in terms of the wage cuts, at 1.47% of GDP. Likewise, wage cuts are commonly an important source for consolidation in operational expenditure among countries with an IMF/EU programme. Greece (category A) increased the amount of reduction to 0.95% from 0.22% of GDP described in last year's report, and Portugal, Hungary and Ireland (category A) still assigned around 0.7% of GDP in wage cuts (Figure 1.23B). For example, EUR 1.2 billion is to be cut from the public service wage bill during 2011-14 in Ireland, and in Portugal government wages were cut 5% in 2011 and will be frozen during 2012-13 (Table 1.4). This indicates that wage cuts are still being used as an important signal to markets and the public regarding the government's determination to improve fiscal balances by taking politically tough decisions.

Together with the wage cuts, public sector employment is still being scaled back considerably. Germany plans to abolish up to 10 000 staffing positions permanently, and general government employment will fall by 710 000 by 2016-17 in the United Kingdom (Table 1.5).

Figure 1.23. Operational expenditure reduction measures – impact (2009-15)



Note: Operational measures announced by Iceland, New Zealand, Turkey and the United Kingdom are not available in this survey. Wage cuts announced by Germany, Iceland, Turkey and the United Kingdom are not available in this survey.

Table 1.2. Wage reduction targets

Country	Reductions
France	Freeze of general increases of the civil servant salaries
Greece	Rationalisation of special wage regimes (police, military personnel, firemen, diplomats, etc.)
Hungary	Freezing the gross wage bill and reducing earning compensation in the public sector
Ireland	EUR 1.2 billion is to be cut from public service wage bill during 2011-14
Portugal	Average cut of 5% in government wages in 2011, and freeze during 2012-13
Slovenia	Limited to 1.2% annually

Table 1.3. Staff reduction targets

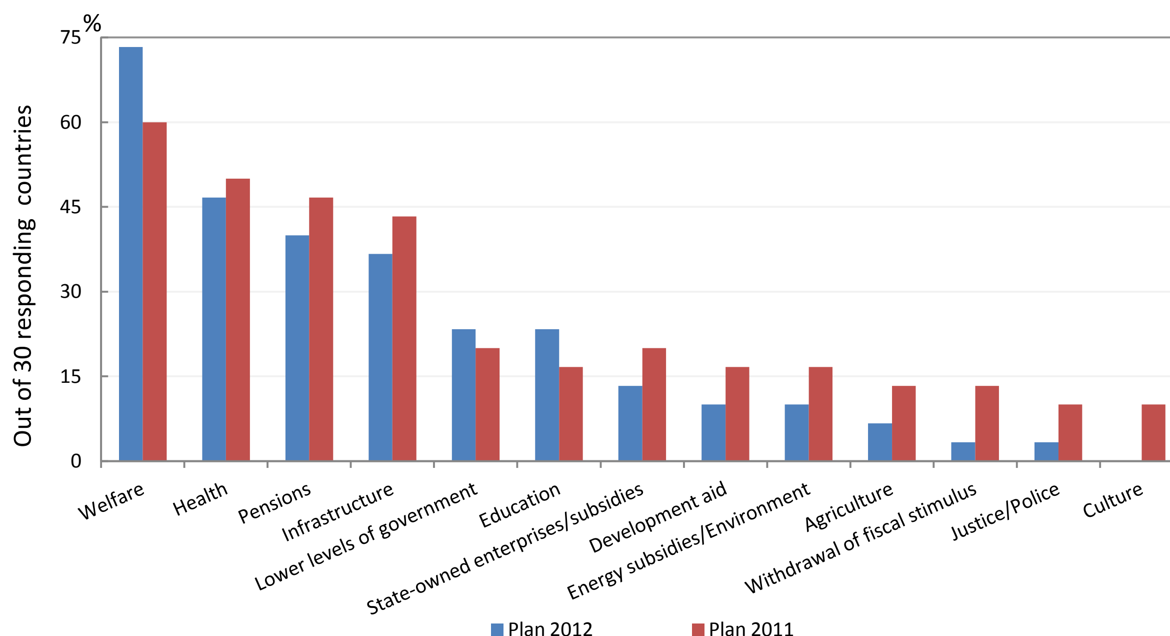
Country	Reductions
Austria	Reduce recruitment
France	Non-replacement of one out of two retiring civil servants will cut 150 000 posts by 2013
Germany	Up to 10 000 staffing positions to be permanently abolished by 2014
Portugal	Reduce the number hired in central, regional and local governments
The United Kingdom	General government employment will fall by 710 000 by 2016-17

Major programme measures

The largest expenditure reductions involve programme measures, as was the case in last year's report. The most frequently targeted areas for savings are welfare, health care, pensions, and infrastructure. However, some countries did not report any consolidation plan in health (Estonia), pensions (Czech Republic, Estonia) or infrastructure (Czech Republic, Estonia, Hungary and Switzerland) as was the case

last year. In a few OECD countries, transfers to lower levels of government (Hungary, Slovak Republic, Sweden), education (Netherlands, Spain, Sweden), and subsidies to state-owned enterprises (SOEs) (Greece, Portugal) also contribute to consolidation (Figure 1.20). Likewise, a number of countries have reduction plans in research, social integration and transfers to business which were not categorised in last year's report. At the same time, the consolidation plan of many countries includes unspecified savings from the programme measures, *i.e.* no details are provided concerning savings from general spending cuts across overall departments. Examples from Ireland include general departmental spending cuts of EUR 3 billion during 2011-14.

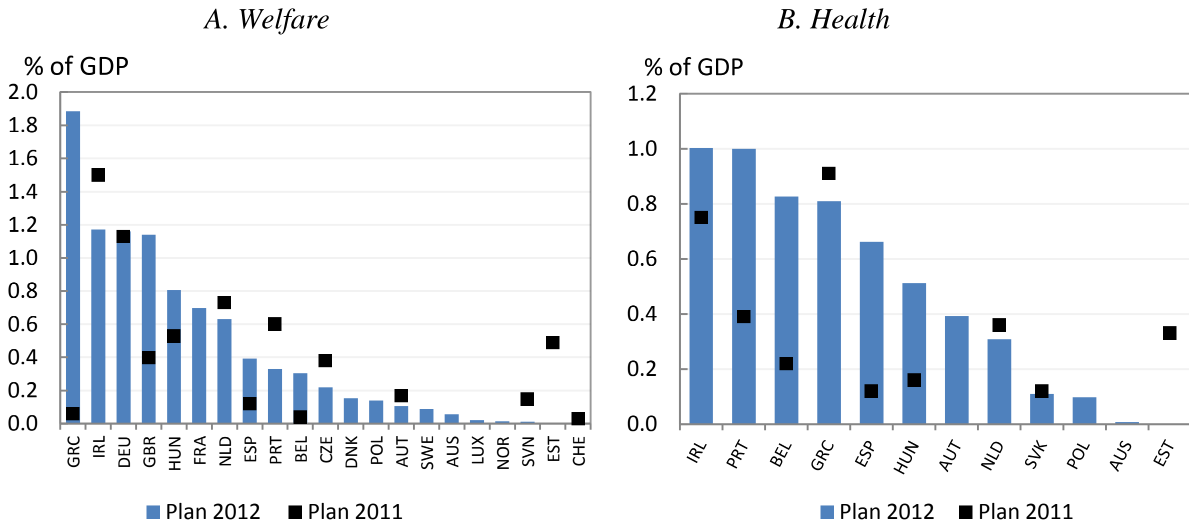
Figure 1.24. Major programme measures – frequency (2009-15)



Welfare is the most frequently targeted area for savings, and more than 70% of member countries have consolidation plans in welfare in 2012. This is not surprising given the largest share of public expenditures devoted to social protection (see Figure 1.17 above). Greece (category A) is reducing welfare expenditures by1.88% of GDP with reductions in social security funds and social spending (see Figure 1.25A); this percentage is the highest among OECD countries, and far higher than the 0.06% of GDP reported last year. Hungary and Ireland (both in category A) and Germany and the United Kingdom (both in category C) plan reductions in the area of welfare, in excess of 1.1% of GDP. For instance, the United Kingdom increased the expenditure cuts in welfare from 0.4% to 1.14% of GDP with the cuts on child and disability benefits. Likewise, a number of countries have quantified reductions in magnitudes of close to 0.3% of GDP or more (Figure 1.25A).

More than 45% of countries identified health savings as one of the main consolidation sources, a reduction from the 50% reported last year. These measures constitute a major share of expenditure savings in all countries with an IMF/EU programme (category A): Greece, Hungary, Ireland and Portugal. For example, Portugal plans to reduce expenditure in the health system, especially in the areas of pharmaceuticals, user fees, public health systems and through hospital restructuring. The savings on health expenditures will amount to as much as 1.0% of GDP in Ireland and Portugal. Belgium and Spain (category B) also increased their savings target in the health area from 0.22% to 0.83% of GDP, to reduce the excessive debt (Figure 1.25B).

Figure 1.25. Welfare and health – impact of reductions (2009-15)

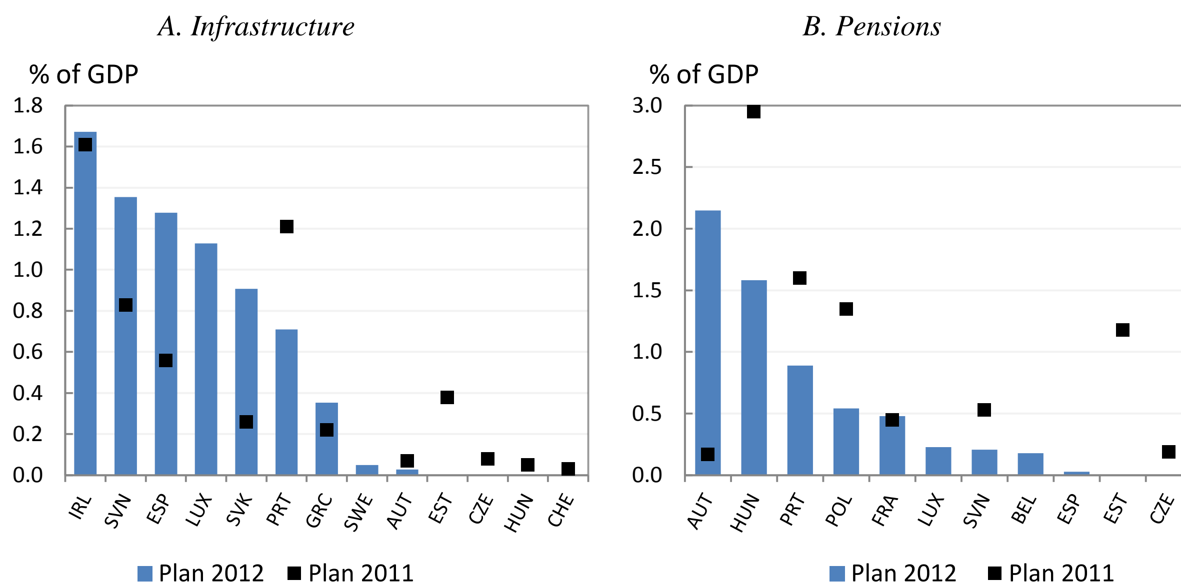


Notes: Welfare programme measures announced by Iceland, Korea and New Zealand are not available in this survey. Programme measures on health announced by France, Slovenia and Turkey are not available in this survey.

The reduction of infrastructure expenditure is also on the agenda in many countries. Ireland (category A), Spain and Slovenia (category B) plan to cut infrastructure investment by more than 1% of GDP. Portugal (category A) indicated the commitments to no new road construction, thus reducing infrastructure spending by 0.71% of GDP rather than the 1.21% of GDP reported last year (Figure 1.26A).

Pension reform is also on the agenda for some OECD member countries even if its impact on consolidation is somewhat reduced across the countries. Austria (category C) plans savings in pension by 2.2% of GDP by increased contributions and, in Hungary (category A), pension reductions still accounts for more than 1.5% of GDP in savings through a change in the indexation system for pensions. In Portugal, savings of 0.9% of GDP are expected through special contribution for pensions (Figure 1.26B). Belgium, Poland (category B) and France (category C) also expect savings due to the increase of the retirement age.

Figure 1.26. Infrastructure and pensions – impact (2009-15)



Note: Programme measures on infrastructure announced by Iceland and Turkey are not available in this survey. Pension programme measures announced by Greece and New Zealand are not available in this survey.

Box 1.7. Pension reforms in Belgium, France and Hungary

Belgium: The government has introduced structural reforms of the pension system which will come into force as of 2013. First, the early retirement age will be increased from 60 to 62, in both the private and the public sector (six months per year from 2013 to 2016). Second, measures will be introduced to authorise and encourage people to work longer than age 65. Third, the pension bonus and fiscal incentives for long-term savings will be improved, to encourage longer careers.

France: On 7 November 2011, the government decided to bring forward the transitional phase of the pension reform by one year, thereby rescheduling the target age of 62 years for 2017 instead of 2018. In view of the current sovereign debt crisis, this measure will reduce the pension scheme deficit more quickly and speed up the shielding of pensions from financial market tensions.

Hungary: The government started reshaping the pension system in 2011, and subsequent steps will follow in 2012 in order to reinforce the insurance and solidarity character of the pension system and to improve its long-term sustainability and transparency. The 2012 budget includes a balanced budget for the Pension Insurance Fund. From 31 December 2011, the whole social security pension contribution flows to the Pension Insurance Fund.

Only two OECD countries each have consolidation plans in agricultural expenditure (Hungary, the Slovak Republic), three countries in development aid (Canada, Netherlands, Spain) and in energy subsidies (Australia, Hungary, United Kingdom), which is more limited than reported in last year's report (see Figure 1.24 above). This indicates that these areas are still the least prioritised ones for savings among OECD countries since there is continued sizeable support for agriculture and levels of subsidies in many countries.

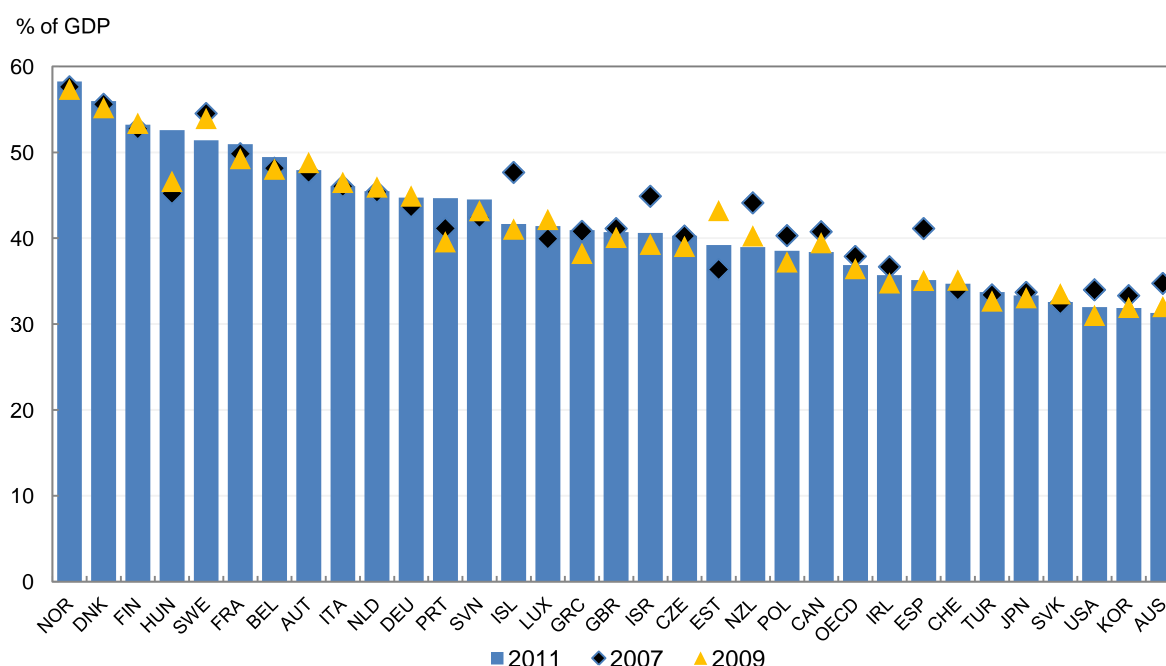
1.5.3. Revenue in OECD member countries

Most of the surveyed countries have strategies for enhancing revenue in their fiscal consolidation plans. Various factors, including size of government revenue relative to GDP, composition of revenues, and the size of needed fiscal adjustments, play an important role in determining which strategies to implement to increase revenues.

In the OECD area as a whole government revenue as a share of GDP was stable at around 40% during 2007-11. However, government revenues show significant differences between countries, ranging from 32% of GDP in Korea to 56% in Norway (Figure 1.27). Nordic countries collect on average ten percentage points of GDP more revenue than other countries. In contrast, revenue-to-GDP ratios for some countries such as Austria, Japan and the United States are well below the OECD average.

The revenue-to-GDP ratios decreased during 2007-11 in several countries such as Iceland, Israel, New Zealand and Spain due to revenue contraction following the economic downturn and reductions of the income tax rates. In contrast, the ratios increased significantly in Hungary (category A) primarily due to asset transfers from private pension funds to the state pension pillar. Also Portugal (category A) has experienced an increase in the revenue-to-GDP ratio in the period.

Figure 1.27. General government revenues, 2007-11

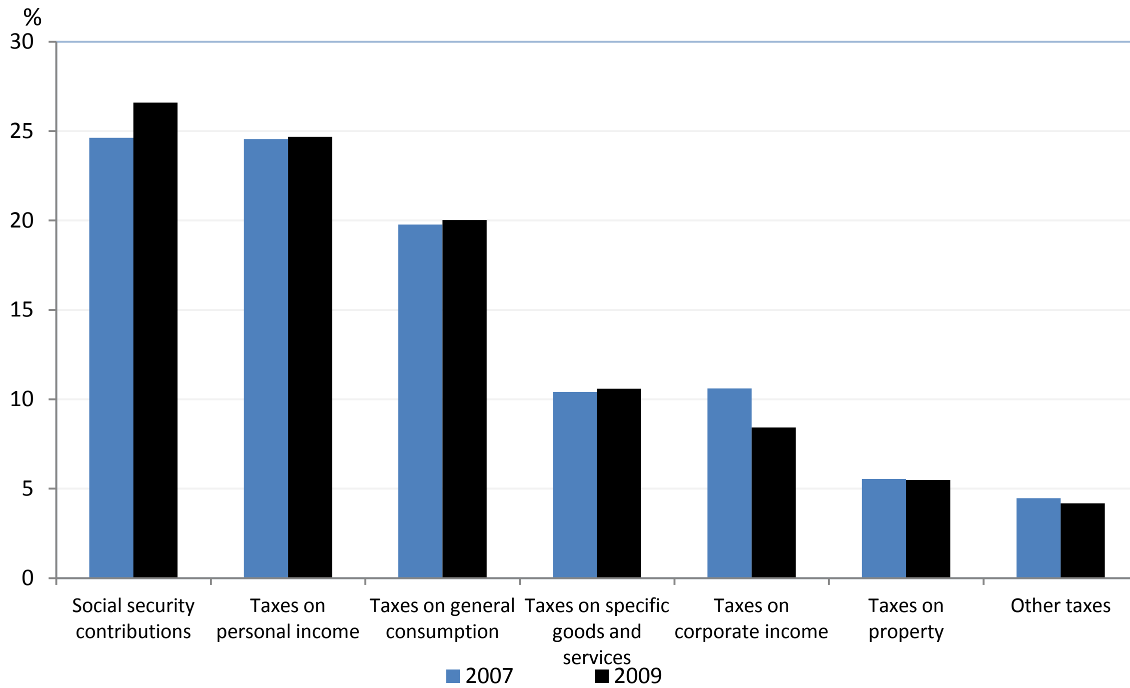


Notes: OECD average does not include Turkey.

Source: Economic Outlook Volume 2012/1, No.91 (Economic Outlook No. 90 for Turkey).

Of total general government tax revenues, the largest share (33% of total tax revenue) is made up of personal income taxes and corporate income taxes, followed by social security contributions. Taxes on general consumption and on specific goods and services also represent a significant amount of total tax revenue (Figure 1.28).

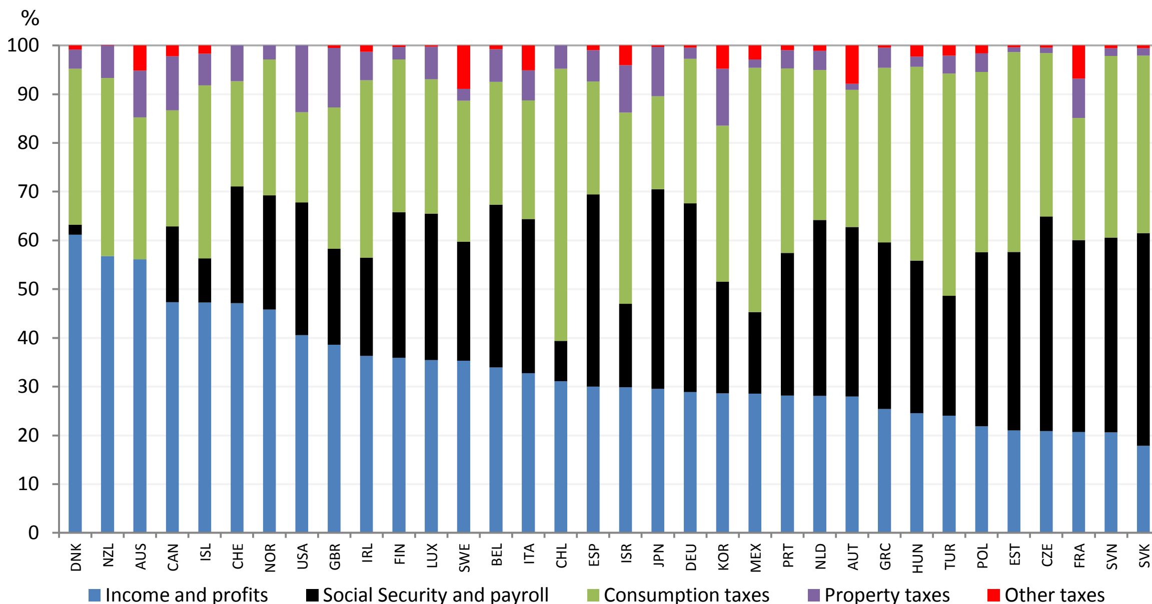
Figure 1.28. Tax structures, 2007-09



Source: OECD Revenue Statistics, November 2011.

There is considerable variance between OECD member countries in terms of relative reliance on tax sources, especially consumption taxes (Figure 1.29). These differences suggest that for some countries the scope for increasing consumption taxes might be greater compared to other countries.

Figure 1.29. Relative reliance on tax revenue sources



Source: OECD Revenue Statistics, November 2011.

The size of fiscal adjustments is also an important factor in explaining diverse revenue enhancement measures. The majority of fiscal adjustment programmes include some revenue measures in order to complement expenditure-based fiscal adjustment. But countries with an IMF/EU programme like Greece, Hungary, Ireland, and Portugal, which have large fiscal adjustment needs, have supplemented expenditure-based plans with substantial revenue enhancement measures, since spending cuts alone might be not enough to stabilise their public finances.

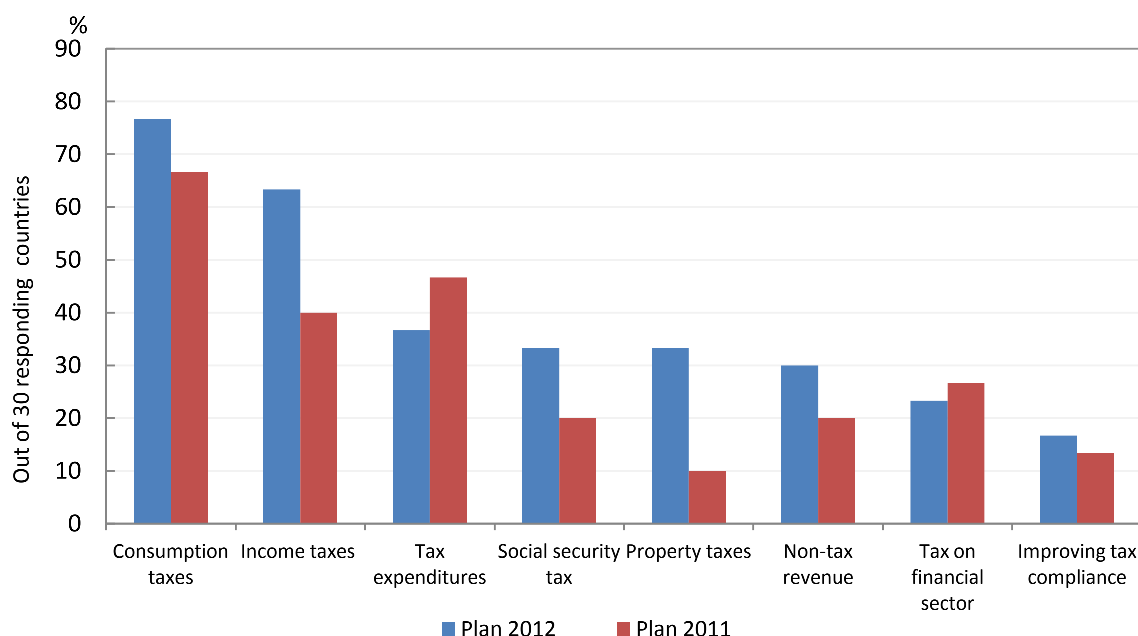
1.5.4. Major revenue enhancement measures

In this section, the revenue enhancement measures cover the whole period of the countries' consolidation plans, from 2009 to 2015 (2016 for Austria) depending on the announced plan in each country.

The most frequently announced tax measure is still to raise consumption taxes, and more than 75% of OECD countries plan to raise consumption tax revenue as was higher than the case in last year's report (Figure 1.30). This frequent use of consumption taxes implies that policy makers believe that such taxes are likely to bring in significant revenue in the short term with less of a negative impact on economic growth.

More than 60% of OECD countries plan to raise income taxes, a higher number than last year. Tax expenditure, social security tax, property taxes and non-tax revenue including user fees and privatisation of state-owned enterprises also play a significant role in enhancing revenues in some countries. However, for revenue enhancement purposes only 5-7 countries use special taxes on the financial sector and improving tax compliance (Figure 1.30). Likewise, newly established tax items such as the tax levies on nuclear power industry in Germany and a tax on non-renewable resources in Australia are included in the other tax category in this report.

Figure 1.30. Revenue enhancement measures – frequency (2009-15)



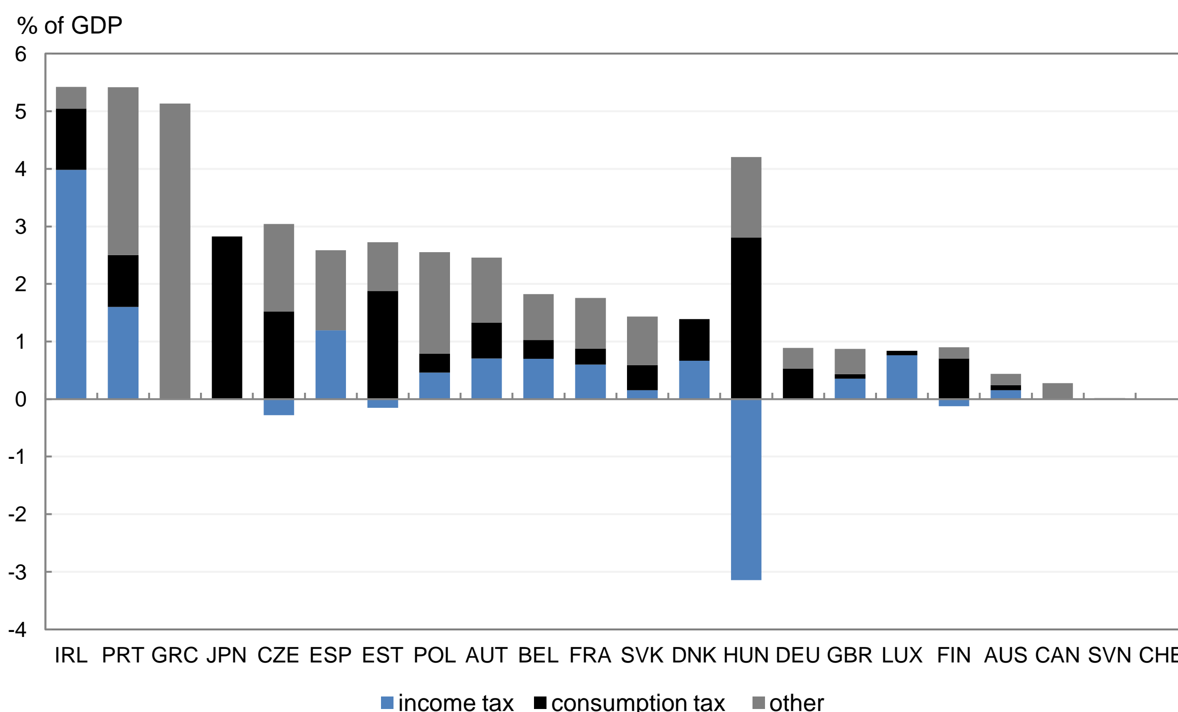
Notes: Consumption taxes include value-added taxes, general sales tax, and taxes on specific goods and services (excise duties). Income taxes include personal income taxes and taxes on corporate profits. Non-tax revenue includes raising or introducing user fees (such as tolls for motorways), privatising state-owned enterprises, selling state-owned

real estate, etc. Improving tax compliance includes reforms to make tax administration systems effective and transparent, efforts to reduce tax evasion and fraud.

The impact of revenue enhancement measures varies widely. Not surprisingly, countries with an IMF/EU programme (category A) announced larger quantified revenue measures. Greece, Ireland and Portugal aspire to increase their revenues by more than 5% of GDP (Figure 1.31). Hungary also plans to enhance revenue by 1.1% of GDP which includes a reduction of income taxes by 3.1% of GDP, to boost economic activity, and an increase of other revenue enhancement measures by 4.2% of GDP.

Increases in consumption taxes account for the largest share of revenue enhancement measures in many countries (Figure 1.31). Income tax measures are used by a number of countries, but their share of the total revenue increase is much smaller than consumption taxes. Only Ireland and Portugal expect a revenue increase in excess of 1% of GDP. In Greece, revenue enhancements mainly derive from increases of social security fund contributions and improvements in tax compliance.

Figure 1.31. Quantified revenue enhancement measures (2009-15)



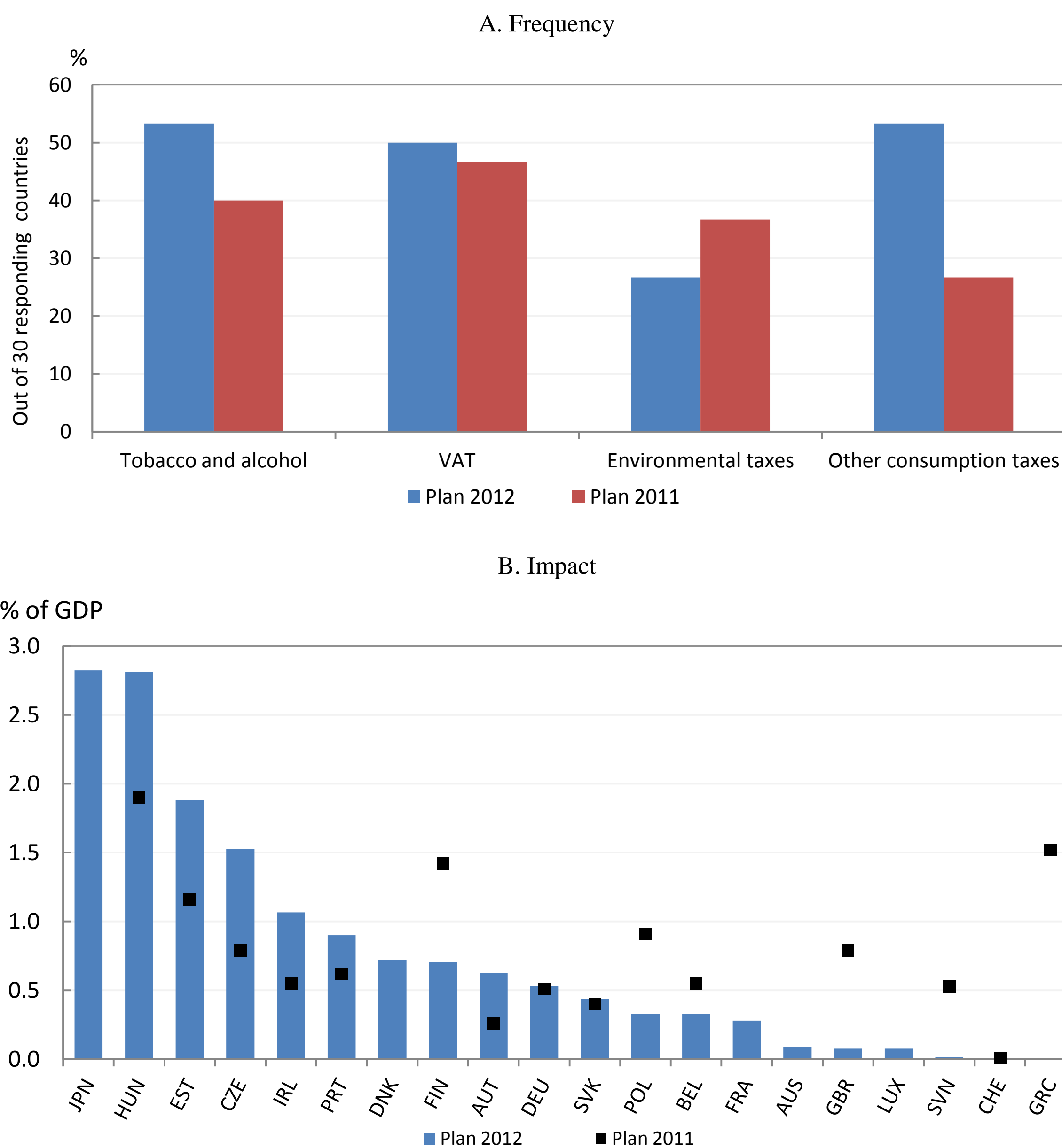
Notes: Data on the breakdown of revenue enhancement measures are not available for Iceland, Korea, Mexico, Netherlands, New Zealand, and Turkey. Income tax and consumption tax measures announced by Slovenia and Spain respectively are not available. Austria has reported measures up to 2016. Norway and Sweden did not apply any revenue enhancement measures.

Consumption taxes

Most countries announced consumption tax measures including hiking the rate of value-added taxes (VAT), extra excise duties on tobacco and alcohol, and environmental taxes as in last year's report. Taxes on tobacco and alcohol are the most frequently adopted consumption taxes followed by VAT (Figure 1.32A). Other specific new consumption taxes include levies on telecom services, and lotteries were also reported as well as many other unspecified excise duties.

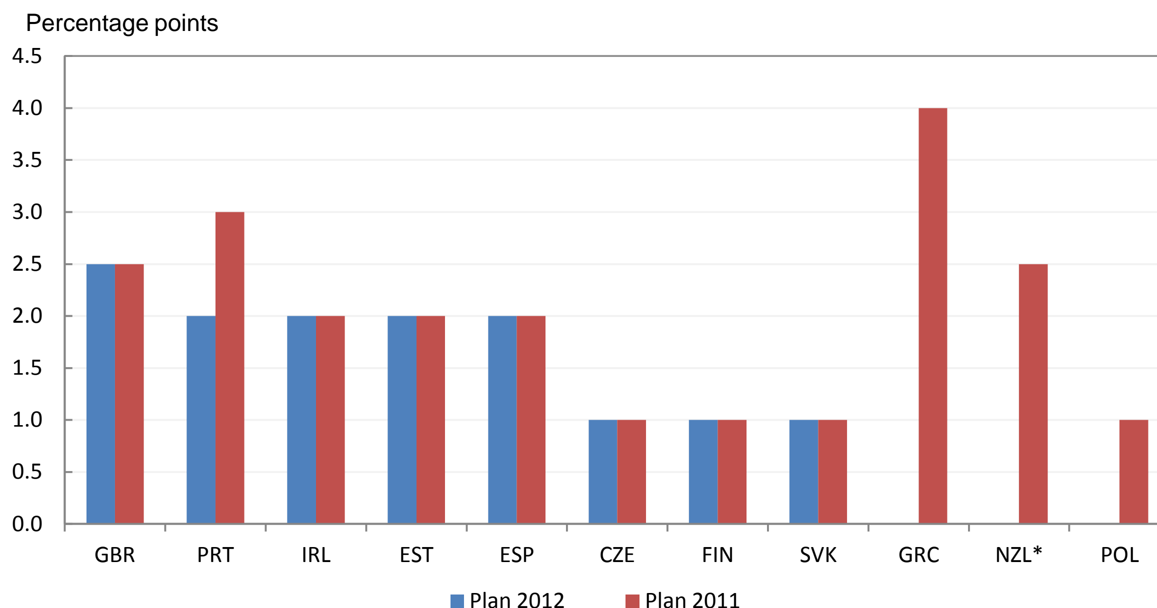
The impact of consumption tax measures is more than 1% of GDP in the Czech Republic (category C), Hungary, Ireland (category A) and Japan (category C) which are struggling with excessive debts. Estonia also relies on increases by 1.0% of GDP (Figure 1.32B). Japan plans a two-staged consumption tax increases to 10% by 2015 from the current tax rate of 5%. Estonia, Ireland, Portugal, Spain and United Kingdom plan an increase of two percentage points or more in the rate of VAT (Figure 1.33). In contrast, for example Greece (category A) and Slovenia (category B) shifted their focus from consumption taxes to income tax and other tax measures including bank levies, as a source of new revenue (Figure 1.32B). Some countries such as Greece, New Zealand and Spain did not report consumption tax measures in this survey (Figure 1.32B).

Figure 1.32. Consumption taxes



Note: Consumption tax measures announced by Iceland, Mexico, Spain and Turkey in this survey are not available.

Figure 1.33. VAT rate hikes (2009-15)



Notes: New Zealand applies a general consumption tax. VAT rate hikes in Belgium are not included in the graph (*e.g.* the VAT rate on TV emission is to be raised by 9 percentage points from 2012 onwards). Austria, France, Hungary and Mexico also have adopted measures on VAT, but did not provide detailed data.

Box 1.8. Consumption tax increase in Japan

The Japanese Cabinet officially adopted the "Comprehensive Reform of Social Security and Tax" in February 2012 and specified its detailed plan for revenue enhancement and social security stabilisation. To address rising social security spending, Japan is planning to double the consumption tax rate to 10%. This change will occur in two key stages: from the current 5% to 8% in April 2014 and to 10% in October 2015. The enhanced revenue will be spent in part to resolve the problem of children on waiting lists for day care and to improve the medical and long-term care services as well as measures for low-income earners (JPY 2.7 trillion, equivalent to 1% of the consumption tax rate increase). The rest of the enhanced revenue will increase the national government's contribution to the basic pension and will reduce the shifting of burdens to future generations (JPY 10.8 trillion, equivalent to 4% of the consumption tax rate increase).

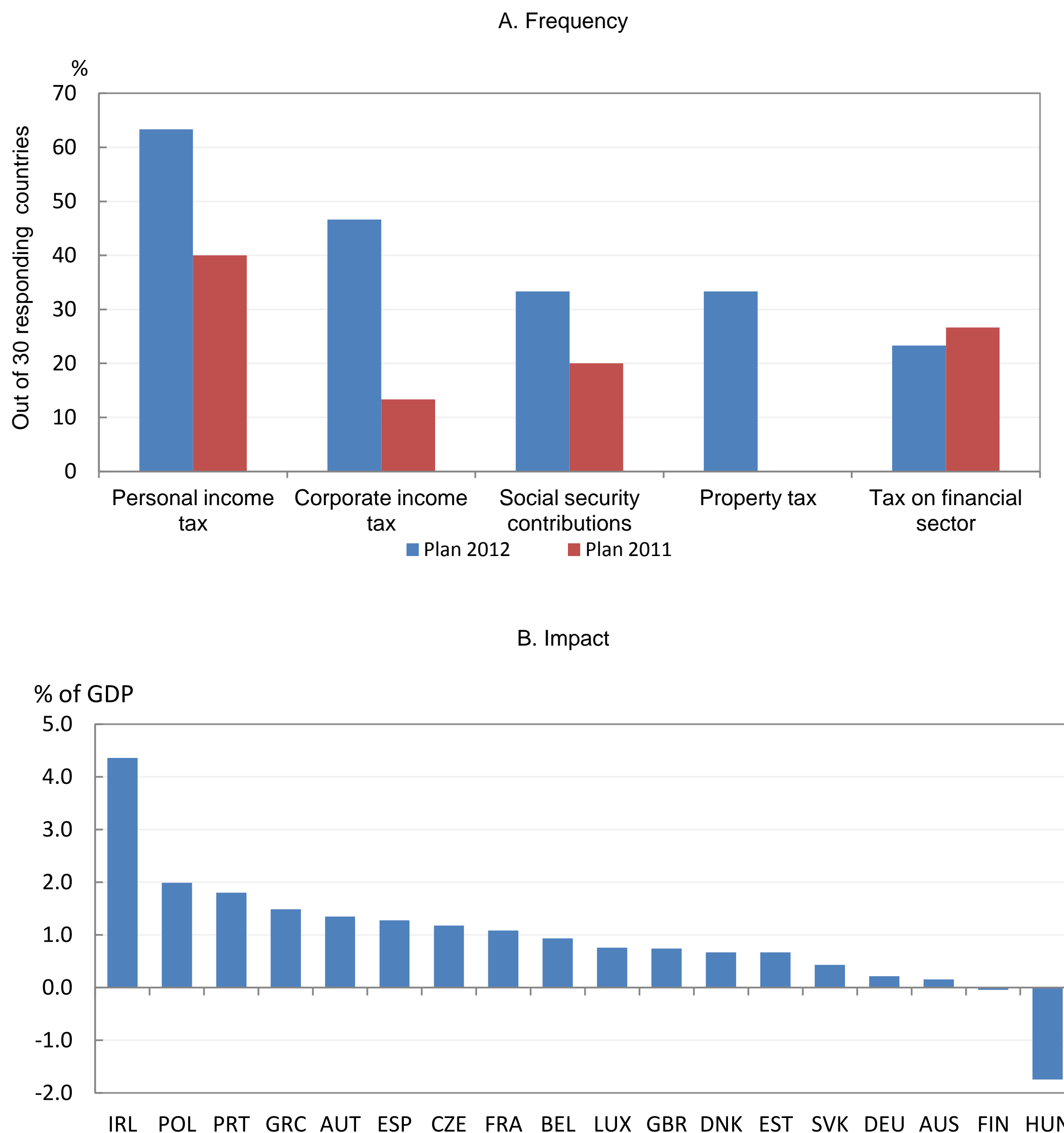
Income taxes, social security taxes, property taxes, and taxes on the financial sector

To strengthen revenue, many countries have envisaged measures to enhance revenue from personal income taxes (PIT), corporate income taxes, social security contributions, property taxes and taxes on the financial sector. PIT is the most frequently used measure, but in 2012 more countries reported their plans to enhance revenue through corporate income tax and social security contributions than described in last year's report. Some countries such as Belgium, France and Ireland also are expecting revenue increases from property tax, whereas the tax on the financial sector is a little bit less frequently employed (Figure 1.34A).

Austria, the Czech Republic, France (category C), Poland (category B) and all countries with an IMF/EU programme except Hungary (category A) expect to bring extra revenues of more than 1% of GDP from these measures (Figure 1.34B). Ireland tops the list with its PIT revenue increase from 1.2% to 4% of GDP, whereas Hungary plans to reduce PIT revenue by 3.1% of GDP to provide effective incentive to workforce. Social security contributions are a significant source of revenue increases – by more than 1% of

GDP – in Czech Republic, Greece, Hungary and Poland. An example is the cancellation of a reduction in employers' contributions in the Czech Republic.

Figure 1.34. Income-related taxes



Note: The figure adds the impact of income taxes, social security contributions, property taxes, and taxes on the financial sector. The comparison with last year's report is not described as it did not include property tax in the components. Income-related tax measures announced by Iceland, Slovenia and Mexico are not available.

Property taxes contribute to revenue enhancement by more than 0.1% of GDP in Belgium, France, Ireland and Poland. An example is a charge of EUR 200 on second homes in Ireland. Taxes on the financial sector play a significant role in raising tax revenue by more than 0.1% of GDP in Austria, Germany, Hungary and Slovak Republic. An example is a bank levy in Germany whose proceeds will go

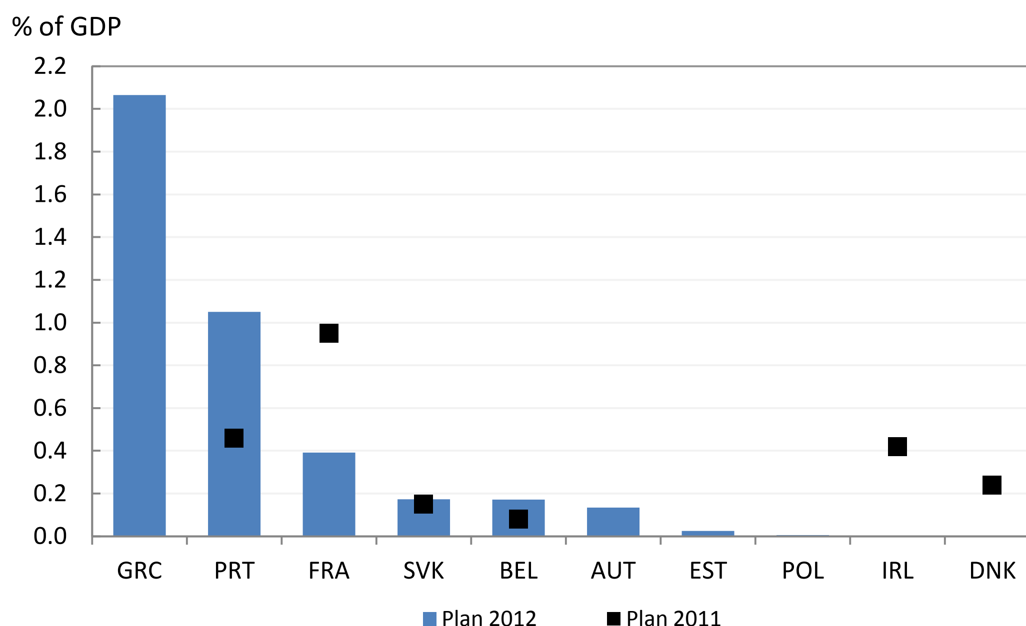
to restructuring the fund for banking. The levy will bring an additional EUR 6 billion (0.21% of GDP) by 2014.

Other revenue enhancement measures

Tightening tax deductions and other tax benefits (tax expenditures) are also used by countries to increase revenues (Figure 1.35A). Portugal announced that it would revise and limit tax allowances and other tax benefits in income tax, which will increase revenue by 1.05% of GDP, a higher impact than the 0.46% of GDP in last year's report (Figure 1.35A). Belgium also plans to reduce the deduction for energy saving investments and the Slovak Republic plans to phase out of exemptions for bio-fuels. In contrast, Denmark and Ireland did not report tax expenditure measure in this survey as they did last year.

Figure 1.35. Impact of other revenue enhancement measures

A. Tax expenditure

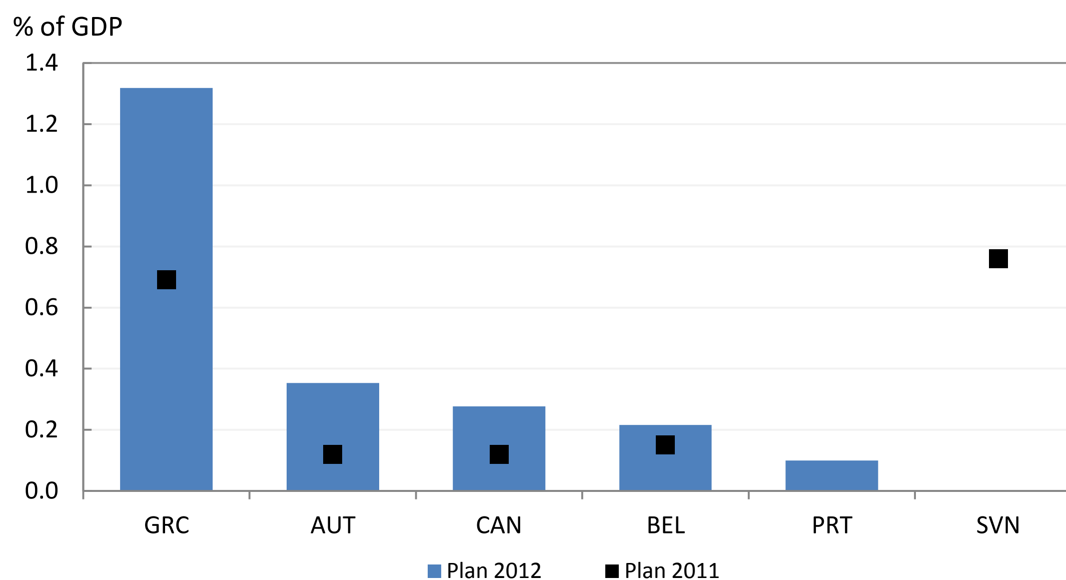


Note: Tax expenditure measures announced by Germany, Korea and Spain are not available in this survey.

Several countries will implement measures to make their tax administrations more effective and to reduce tax evasion (Figure 1.35B). Greece expects to collect extra revenue amounting to 1.3% of GDP, which is higher than the 0.7% of GDP reported last year. Austria, Belgium, Canada and Portugal also expect significant revenue increases by closing loopholes and improving the fairness of the tax system. In contrast, Slovenia did not report tax compliance measure as they did last year.

Figure 1.35. Impact of other revenue enhancement measures *(cont'd)*

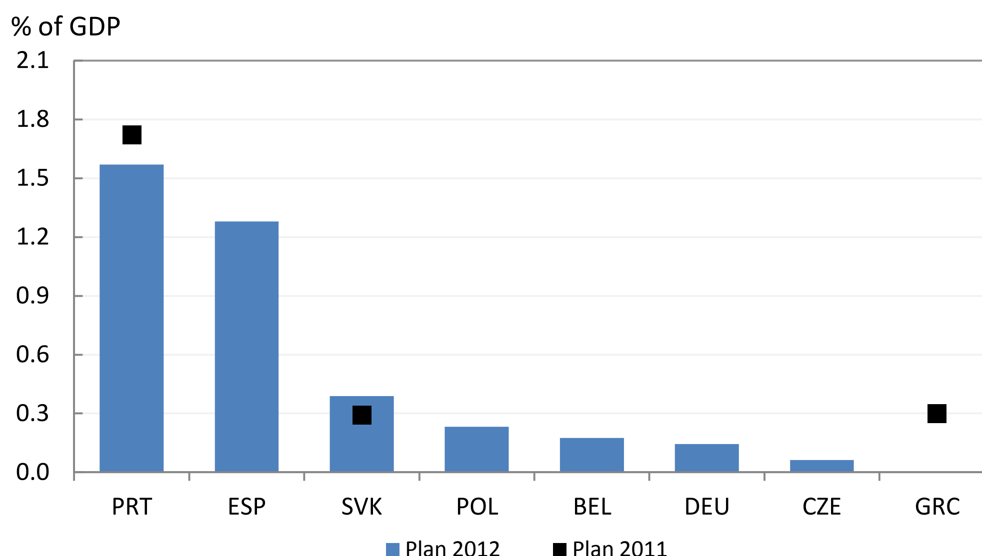
B. Tax compliance



While tax measures can exert a long-lasting influence on revenues, some countries are implementing non-tax measures to increase revenues. These measures amount to more than 0.2% of GDP in Poland, Portugal, the Slovak Republic and Spain (Figure 1.35C). For instance, the Slovak Republic plans to sell the CO^2 emission permit and increase the fees on highways, on electricity and on fuels. In Belgium, revenue stemming from the monopolised lottery and fines are expected. Portugal expects a revenue increase from the introduction of tolls in motorways.

Figure 1.35. Impact of other measures *(cont'd)*

C. Non-tax revenues



Note: Non-tax revenue measures announced by Iceland and New Zealand are not available in this survey. Estonia did not report non-tax revenues although they accounted for 2.1% of GDP in last year's report, which is not included in the graph.

1.5.5. Do the consolidation measures contribute structurally?

As in last year's report the consolidation plans provided by countries can be classified into three categories:

i) long-term structural measures
ii) the rolling back of stimulus measures
iii) short-term additional adjustments

The majority of the plans, both on the expenditure and revenue sides, appear to be long-term structural measures that improve long-term fiscal sustainability.

By now, most stimulus packages are being or have been rolled back. Still some countries with small consolidation needs include such stimulus measures in the consolidation plans (Finland, Sweden, Switzerland).

Some consolidation measures are not considered to have a structural impact because they are either one-off or temporary measures, or because they rely primarily on accounting changes that do not improve the underlying primary balance. Such measures may appeal to countries under market pressure to consolidate (category B) either to help relieve liquidity pressures, or because they are seeking to frontload deficit improvements in order to reassure capital markets. For example Poland has introduced changes in the funded pension scheme by reducing the rate that provides funds to the second pension pillar leading to an increase in government revenue (0.8% of GDP by 2015). Also Hungary has made changes to the pension scheme such as from 31 December 2011 the whole social security pension contribution flows to the government Pension Insurance Fund, following an asset transfer from private pension funds to the state pension pillar in 2011. Hungary also has introduced other one-off measures in 2012 amounting to 0.7% of

GDP. Luxembourg has introduced a crisis levy (0.2% of GDP by 2013) and New Zealand will partial privatise state-owned assets (worth NZD 5-7 billion by 2017).

Some operational and administrative efficiency measures may not realise the expected fiscal impacts, either because their effects may fade over time, as in the case of wage reductions or limiting wage increases, or because they are based on assumptions of user behaviour, as in the case of improving tax compliance.

Instead of adopting a specific consolidation plan, some countries rely on general strategies for cap on expenditures, like Australia, Japan, Korea and Turkey. These strategies includes rules that an increase in expenditure will be kept below the increase in revenue (Korea and Turkey), an annual cap on real spending growth (Australia), and limit spending to the level of a previous budget (Japan).

Finally, economic assumptions that are systematically "optimistic" understate fiscal consolidation needs, undermining countries' ability to meet their deficit reduction targets over time. Due to the headwinds on economic recovery from late 2011, several OECD countries have slightly more optimistic assumptions of economic growth in the 2012 budget and in the consolidation plan than the reality now suggests. Over-optimistic growth assumptions imply that increased expenditures on social welfare like unemployment benefit and reduced tax revenue will add to the planned deficit in 2012. Therefore several countries may adopt additional measures in 2012, or may accept a larger deficit than planned. For some countries this increased deficit may be countered by the better than planned results in 2011.

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CHAPTER 2

FISCAL CONSOLIDATION IN THE OECD: COUNTRY PROFILES*

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. 91", *OECD Economic Outlook: Statistics and Projections* (database) (OECD, 2012), and uses OECD definitions of general government balance and gross debt which may differ from national definitions (see Box 2.1). For the EU countries gross debt is also presented according to the Maastricht criteria.

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. Table 1 presents the figures behind the charts. The charts present data from "OECD Fiscal Consolidation Survey 2012" (named "Plan 2012") that is compared to data from "Restoring Public Finances" (OECD, 2011b) (named "Plan 2011). 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. The information is mainly based on sources available before end of March 2012; however, data published in April are taken into account mainly for some countries under distinct market pressure which had not adopted the 2012 budget before the survey deadline. Actual figures on fiscal balance and gross debt of EU countries are updated according to Eurostat's news release 23 April 2012.

Major consolidation measures are listed 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 fixed categories. Table 2 summarises the government's specific consolidation measures and their impact. The impact is given in local currency and in per cent of nominal GDP, calculated by the OECD Secretariat by using nominal forecasts of GDP reported by the national governments. Eventual pension reforms are also included in this section.

Section 4 provides recent or planned institutional reforms.

* 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.

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.

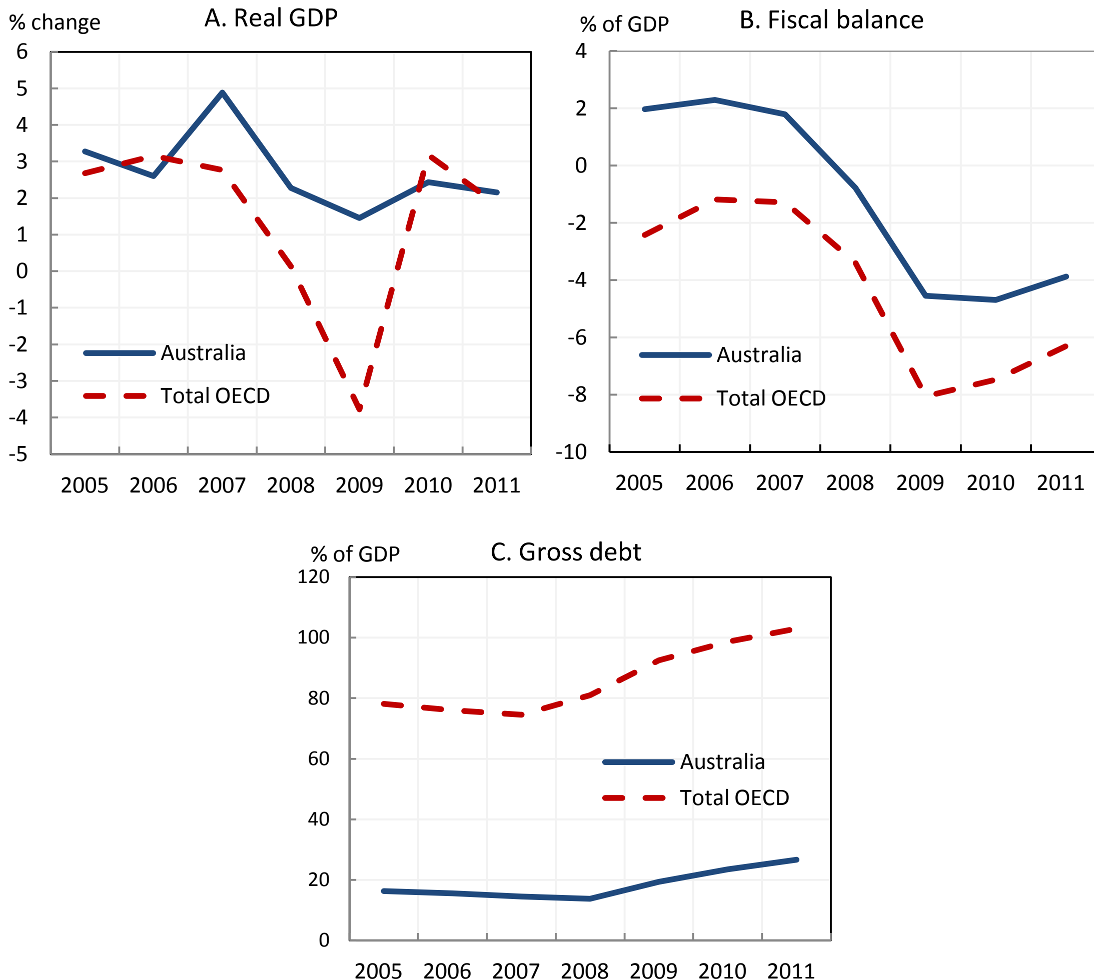
Source: OECD (2010), *OECD Economic Outlook: Sources and Methods*, OECD Publishing, Paris, *www.oecd.org/eco/sources-and-methods.*

AUSTRALIA

1. Economic situation

Although the Australian economy weathered the worldwide recession better than most OECD countries, its real GDP growth was only 2.2% in 2011 (2.4% in 2010) due to natural disasters and the fragile confidence in the international environment (Figure 1A). However, the OECD projects that the Australian economy should be around potential in 2012 and in 2013 with the expansion of exports and mining. Withdrawal of the fiscal stimulus coupled with the stringent real spending growth control (within 2% of the annual cap since 2009) reduced the fiscal deficit to 3.9% of GDP in 2011 from 4.7% in 2010 (Figure 1B). Even though the gross debt has continued to increase since fiscal stimulus in 2008, it remains stable at around 20% of GDP, which is far below the OECD average (Figure 1C).

Figure 1. Key economic indicators



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

Source: OECD (2012), OECD Economic Outlook, Vol. 2012/1, OECD Publishing.

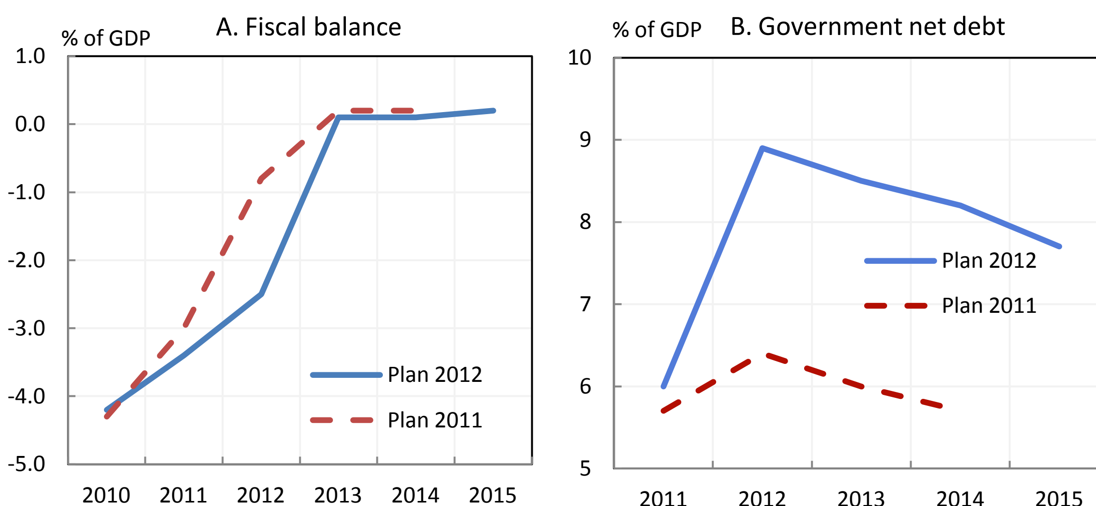
2. The government's fiscal consolidation plan

The Australian government's medium-term fiscal strategy has remained unchanged since 2009. As a part of its deficit exit strategy, in February 2009 the Australian government committed to return the budget to surplus in 2013 (Figure 2A). In the 2010-11 Budget, the Australian government reconfirmed its commitment to the fiscal strategy and also committed to maintain the 2% annual cap on real spending growth until surpluses are at least 1% of GDP.

However, the estimated surplus in 2012-13 has been revised in the 2011-12 Mid-Year Economic and Fiscal Outlook (MYEFO) from 0.22% to 0.09% of GDP. This largely reflects the downward revision to the revenue and fiscal balance estimates due to changes in the economic parameters (Figure 2A).

As a part of the fiscal strategy, the Australian government has offset all new spending with savings from existing programmes, and the published budget papers contain tables that demonstrate the positive net impacts of policy decisions on the budget balance since the 2009-10 MYEFO. Therefore, the government's process for identifying savings included consideration of both its strategic priorities and its fiscal consolidation objectives. As a result, the government net debt is projected to decrease to 7.7% of GDP in 2015 from 8.9% of GDP in 2012 (Figure 2B).

Figure 2. The government's planned fiscal consolidation



Notes: Fiscal balance is general government financial balance and government net debt is general government net financial liabilities as a per cent of nominal GDP projected by the government.
Sources: "OECD Fiscal Consolidation Survey 2012" and "Restoring Public Finances" (OECD 2011).

3. Major consolidation measures

The Australian government identified reductions in expenditure as well as tax reform measures to help fund new priorities and improve the fiscal condition. Table 1 shows that savings will be achieved through a combination of expenditure cuts, measures to improve the integrity and fairness of the taxation system, and deferral of some initiatives.

Table 1. Major consolidation measures

Billion AUD

		2012	2013	2014	2015
I. Expenditures					
A. Operational measures					
A1. Operational expenditure	Increase efficiency dividend (ED) applied to the operational funding of government entities (The ED is now 1.5% in 2011-12, 4.0% in 2012-13, and 1.25% in 2013-14 and 2014-15).	0.12	0.74	0.79	0.85
	Increase efficiencies in corporate and support functions in the defence portfolio.	0.16	0.30	0.32	0.32
	Abolition of information and communication technology business.	0.11	0.18	n/a	n/a
A2. Capital expenditure	20% reduction in departmental capital budgets for relevant government agencies and departments.	0.00	0.23	0.23	0.25
B. Programme measures					
B1. Payments to families	Suspending indexation of family tax benefit supplements for three years and suspending indexation of upper limits and thresholds for a further two years.	0.08	0.41	0.74	0.77
	Resetting the baby bonus to AUD 5 000 per child and suspending indexation for three years.	0.00	0.09	0.13	0.15
B2. Health expenditure	Reforms of funding of pathology services.	0.06	0.09	0.11	0.14
	Pricing reform of the pharmaceutical benefits scheme.	0.19	0.53	0.55	n/a
	Fifth community pharmacy agreement.	0.11	0.13	0.12	n/a
B3. Environmental expenditure	Reduction and deferral of funding for carbon capture and storage flagships programme.	0.02	0.10	0.09	0.12
	Implementing an effective carbon charge on the use of liquid and gaseous fuels through the fuel tax system by reducing the business fuel tax credit entitlement for the use of these fuels.	0.00	0.53	0.05	0.46
B4. Natural disaster recovery and reconstruction	Miscellaneous savings including abolition of green car innovation fund and cleaner car rebate scheme to fund recovery and reconstruction in flood-affected areas.	0.78	0.58	0.41	0.79
B5. Higher education	Reduction of discounts for students who choose to make up-front contributions under the Higher Education Contribution Scheme.	0.03	0.06	0.07	0.07
B6. Other	Improved targeting of the superannuation co-contribution concession for low income earners.	0.00	0.35	0.34	0.33
II. Revenue enhancement measures					
A. Personal income taxes	Temporary flood and cyclone reconstruction levy.	1.50	0.23	0.00	0.00
	Reforming the tax treatment of living-away-from-home allowance and benefits.	n/a	0.22	0.22	0.24
	Reform of car fringe benefit rules.	0.03	0.14	0.34	0.46
	Phase out dependent spouse tax offset.	0.06	0.22	0.23	0.25
	Removing minor's eligibility for low income tax offset on unearned income.	n/a	0.24	0.25	0.25
	One-year pause in indexation of concessional contribution caps.	0.00	0.00	0.36	0.13
	Deferral of the 50% tax discount for interest income.	0.00	0.00	0.28	0.21
	Deferral of the standard deductions for work-related expenses and for the cost of managing tax affairsl	0.00	0.00	0.40	0.78
	Abolition of the Entrepreneur's Tax Offset.	0.00	0.00	0.18	0.19
B. Excise duties	Tobacco excises were increased by 25% in April 2010.	1.29	1.32	1.38	1.42
C. 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	3.70	3.80	3.10

Notes: This table does not comprise an exhaustive list of all consolidation measures implemented by the Australian government but is provided to give an indication of areas where major saving decisions have been made.

Source: “OECD Fiscal Consolidation Survey 2012”.

4. Institutional reforms

The government has introduced essential changes in several areas of its fiscal institutional framework:

Long-term projections	Since 2009-10, the Budget documents have included fiscal projections over the long term, which were calculated using the fiscal aggregate projection model (FAP). The FAP model also formed the basis of the medium-term projections included in the 2010 *Intergenerational Report.*
Economic forecasts	One substantive change has been made to the forward estimates methodology since 2008, with the “forward estimates” comprising the two forecast years and two projection years. In the 2009-10 Budget (released in May 2009), the forecast period was extended by an additional year, and the budget included estimates of the current financial year and forecasts for the following two financial years. This change has since been permanently adopted and is reflected in the two budgets that have been produced since.
Fiscal rules	The Australian government’s medium-term fiscal strategy has remained unchanged since 2008-09. As part of its deficit exit strategy, in February 2009 the Australian government committed to return the budget to surplus as quickly as economic conditions permitted, once the economy recovered to grow above trend. To help achieve this, the Australian government committed to allow tax receipts to recover naturally as the economy improved, while maintaining the commitment to keep taxation as a share of GDP below the 2007-08 level on average, and by holding real growth in spending to 2% per year until the budget returned to surplus. In the 2010-11 Budget, the Australian government reconfirmed its commitment to the fiscal strategy and also committed to maintain a 2% annual cap on real spending growth, on average, until surpluses are at least 1% of GDP, once the budget returns to surplus and while the economy is growing at or above trend.
Expenditure ceilings or forecasts	The Australian government committed to restrain real growth in spending to 2% per year once the economy recovered to grow above trend until the budget returns to surplus. Once the budget returns to surplus, and while the economy is growing at or above trend, the Australian government committed to maintain expenditure restraint through a 2% annual cap on real spending growth, on average, until surpluses are at least 1% of GDP.
Top-down budgeting	There have been no significant changes in relation to this element. With the exception of the addition of the deficit exit strategy in February 2009, the government’s fiscal strategy has remained unchanged since 2008-09 (namely the current government's first budget).
Performance and results	The government has introduced or strengthened a number of tools aimed at improving risk management in the development, consideration and implementation of new initiatives and major new projects. These tools include Implementation Readiness Assessment Reviews, a Risk Potential Assessment Tool, Capability reviews and Gateway reviews.
Budget approval process	Recent years have seen the evolution of pre-Budget review processes (namely the Senior Ministers’ Review, which gradually evolved into the Strategic Priorities and Budget Committee of Cabinet) and re-establishment of the primacy of the Expenditure Review Committee (ERC) of Cabinet in budget processes. The Strategic Priorities and Budget

	Committee of Cabinet stopped operating soon after the start of the first Gillard Prime Ministry in June 2010. Strategic-level functions formerly performed by SMR/SPBC are now performed by ERC.

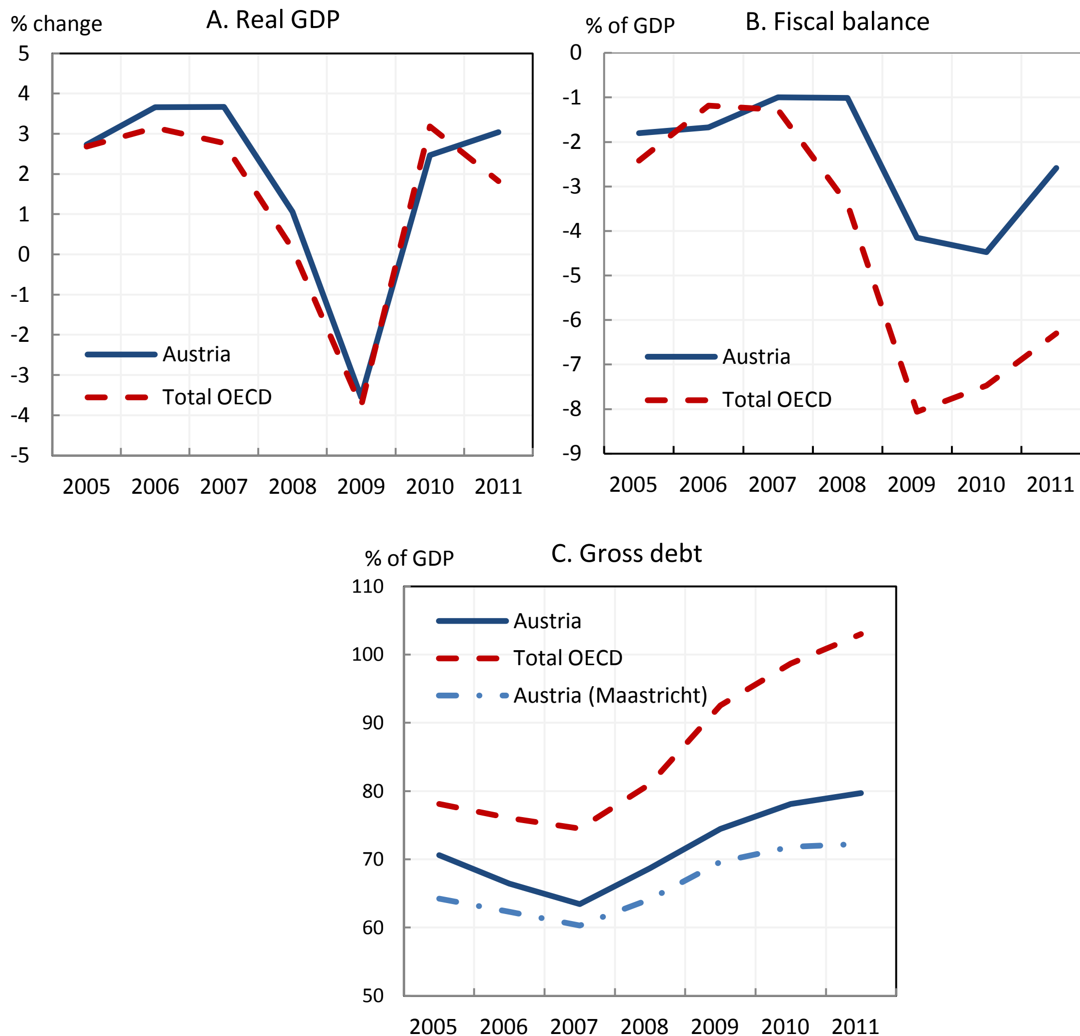
Budget execution practices	Noting the comments in relation to the Expenditure Review Committee above, minor alterations to budget execution practices have been made in recent years in order to refine budget processes. The majority of these amendments have been aimed at rationalisation and streamlining of processes, and include the introduction of processes to: (a) improve the quality and consistency of information presented to ministers for decision-making purposes; (b) better manage the timely lodging of all Budget submissions; and (c) place greater emphasis on ensuring that the government's pre-ERC financial position is clearly known (such that the ERC has a better platform for Budget decision-making purposes).
Other	In late 2011, legislation was passed to establish a Parliamentary Budget Office as a new parliamentary department. The mandate of the PBO, under its establishing legislation, is to inform the Parliament by providing "independent and non-partisan analysis of the budget cycle, fiscal policy and the financial implications of proposals."

AUSTRIA

1. Economic situation

After the sharp contraction by 3.6% of real GDP in 2009 during the worldwide recession, the Austrian economy – a small open economy depending on exports – began to recover in 2010, showing strong growth in 2011 driven by exports and investment (Figure 1A). Austria's budget deficit peaked at 4.5% of GDP in 2010 as stimulus measures were adopted in response to the recession and automatic stabilisers played their role. The deficit contracted to 2.6% of GDP in 2011 due to both the resumption of external demand and the well-performing labour market (Figure 1B). The increase of gross debt reached a moderate level in 2010 with the implementation of a medium-term expenditure framework (MTEF) and the budget law reform of 2009 (Figure 1C). The OECD expects that economic activity will return to trend growth by mid-2013 in the wake of a re-invigorated economy driven by exports and investment.

Figure 1. Key economic indicators



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

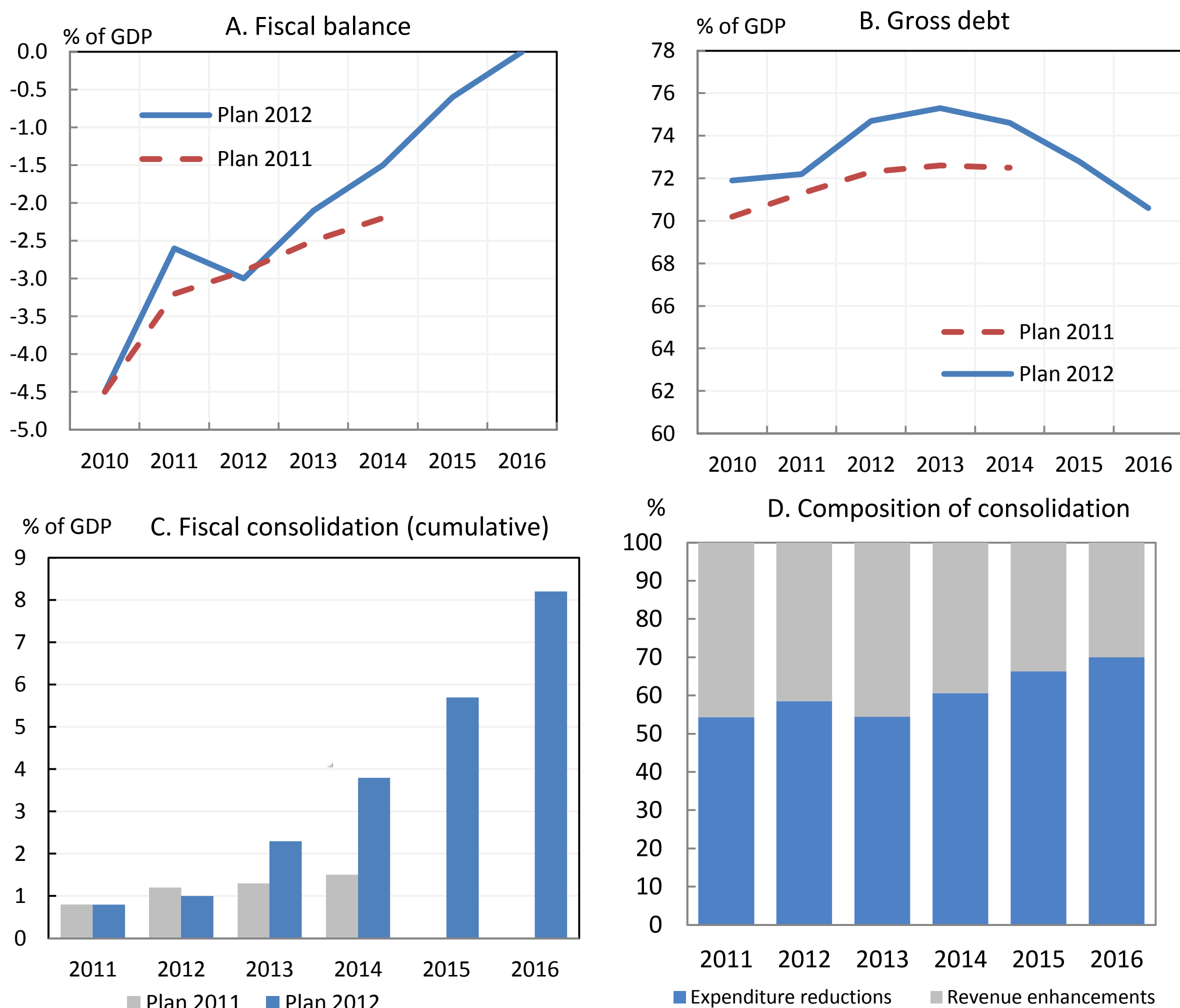
Source: OECD (2012), OECD Economic Outlook, Vol. 2012/1, OECD Publishing.

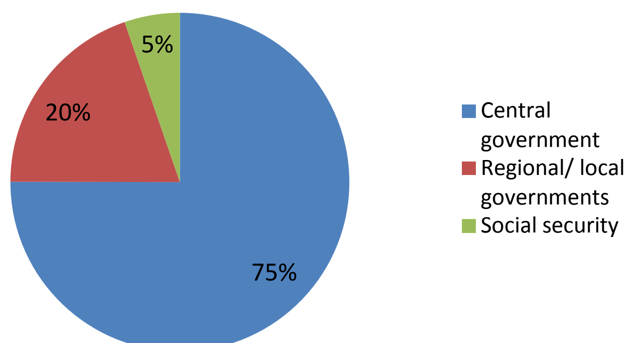
2. The government's fiscal consolidation plan

Since 2009, Austria's fiscal management has been based on an MTEF which is legally binding for four years for the federal government budget. The MTEF sets the general government deficit at 1.5% of GDP and gross debt at 74.6% of GDP in 2014 (Figure 2A and 2B). To accelerate consolidation efforts, the Austrian National Council approved a debt brake rule for the federal level on 7 December 2011.

According to this new rule, the Austrian budget has to be structurally balanced by 2017, meaning that the structural deficit of the federal level has to be below 0.35% and that of states and municipalities below 0.1% of nominal GDP. Deviations from this structural deficit will be accumulated in a control account. If the accumulated deviations reach a threshold of 1.25% of GDP for the federal government and 0.35% for states and municipalities, they have to be reduced in line with the economic cycle. Consequently, the projected fiscal deficit will fall to 1.5% of GDP in 2014 (Figure 2A).

Figure 2. The government's planned fiscal consolidation





Notes: Fiscal balance is general government financial balance and gross debt is general government gross financial liabilities (Maastricht basis) as a per cent of nominal GDP projected by the government. Fiscal consolidation is the cumulative consolidation volume as a per cent of nominal GDP projected by the government (data on consolidation in 2011 not available). The composition of consolidation is expenditure reductions and revenue enhancements in the actual year (cumulative, total 100%). The consolidation by level of government is based on an average of impact of consolidation.

Sources: "OECD Fiscal Consolidation Survey 2012" and "Restoring Public Finances" (OECD 2011).

As a step to implement the debt brake rule, the Austrian federal government agreed upon a consolidation programme for 2012-16 including the federal government, the states, the municipalities, and social insurance. The overall volume of this programme during 2012-16 will be EUR 26.5 billion (EUR 28.9 billion including the fiscal consolidation in 2011) (Figure 2C), and the portion of consolidation efforts on the expenditure side will increase during 2011-16 reaching around 70% in 2016 (Figure 2D). During 2012-16, EUR 19.9 billion will be contributed by the federal government, EUR 1.4 billion by the social insurance system, and EUR 5.2 billion by the states and municipalities (Figure 2E). Likewise, the austerity package also includes four main points:

- The effort will be socially balanced, as all groups of society contribute to the consolidation.
- Economic growth and investments will not be constrained.
- Jobs will be preserved.
- Urgent problems will be faced (reforms regarding pensions, subsidies, the public administration, and the health-care sector).

In late 2011, the Austrian federal government agreed to decrease the general government budget deficit substantially already in 2012 and to implement additional consolidation measures. These measures are expected to amount to EUR 10 billion by 2016; EUR 2 billion each year. This additional consolidation package is not included in this note.

Table 1. The government's fiscal consolidation plan

	2011	2012	2013	2014	2015	2016
Fiscal consolidation volume and path, % of nominal GDP						
Total fiscal consolidation volume	0.8%	1.0%	2.3%	3.8%	5.7%	8.2%
Fiscal balance, deficit (-)/ surplus (+)	-2.6%	-3.0%	-2.1%	-1.5%	-0.6%	0.0%
Gross debt	72.2%	74.7%	75.3%	74.6%	72.8%	70.6%
GDP growth rate in per cent, year on year						
Nominal GDP growth forecasts	5.3%	2.2%	2.9%	3.6%	3.8%	3.8%
Fiscal consolidation through expenditure reductions and/or revenue enhancements (total = 100%)						
Expenditure reductions	54.3%	58.5%	54.4%	60.6%	66.3%	70.0%
Revenue enhancements	45.7%	41.5%	45.6%	39.4%	33.7%	30.0%
Fiscal consolidation, billion EUR						
Expenditure reductions	1.4	1.8	3.9	7.7	13.2	20.3
Revenue enhancements	1.2	1.3	3.3	5.0	6.7	8.7
Total consolidation	2.6	3.1	7.2	12.7	19.9	29.0

Notes: Nominal GDP growth forecasts are the government's estimates of nominal GDP. Fiscal consolidation in national currency is based on the government's quantified measures (cumulative), except the latest bank rescue package.

Sources: "OECD Fiscal Consolidation Survey 2012", Stability Programme 2012 (Ministry of Finance, 2012) and OECD calculations.

3. Major consolidation measures

Table 2 shows the major consolidation measures. The main areas of expenditure cuts are in public administration, pensions and the unemployment insurance system, the health-care sector, and subsidies to public enterprises and infrastructure investment (railroad).

With regards to the revenue side, tax evasion will be more difficult and the tax base will be expanded. Main measures to enhance revenue are related to personal income tax, VAT and financial transaction tax.

Table 2. Major consolidation measures

Million EUR

		2011	2012	2013	2014	2015	2016
I. Expenditures		**1,392**	**1,838**	**3,934**	**7,670**	**13,225**	**20,319**
	% of nominal GDP	*0.5%*	*0.6%*	*1.2%*	*2.3%*	*3.9%*	*5.7%*
A. Operational measures		290	346	737	1,273	2,044	2,834
	% of nominal GDP	*0.1%*	*0.1%*	*0.2%*	*0.4%*	*0.6%*	*0.8%*
A1. Public sector reforms (public staff)	Reduction of recruitment and other personnel measures.	49.9	105	496	1032	1804	2594
A2. Operating expenditures	Reduction of operating expenditure of all ministries and less procurement	240	240	240	240	240	240
B. Programme measures		1,001	1,383	3,070	5,713	9,761	14,776
% of nominal GDP		*0.3%*	*0.4%*	*1.0%*	*1.7%*	*2.9%*	*4.2%*
B1. Pension measures	Halt of parallel accounting, increased requirement for corridor pensions, changed protection of activities, harmonisation of pension contributions, increased contributions, moderate pension increases, experience rating.	340	340	1322	2863	4971	7599
B2. Subsidy measures	Stricter controls on research subsidies, reform of subsidy system, decrease of pension subsidies to Austrian Federal Railways, reduction of operating expenditures of all ministries and less procurement.	189	481	920	1494	2557	3681
B3. Health measures	Reform of health sector.	0.0	79	223	479	871	1391
B4. Interest gained		0.0	12	134	406	892	1634
B5. Family allowances	Reduction of family benefits	246	246	246	246	246	246
B6. Other social expenditure	Long-term care, unemployment insurance, health care	130	130	130	130	130	130
B7. Investment expenditures	Redimension construction and investment	95	95	95	95	95	95
C. Other measures		102	110	128	685	1420	2710
	% of nominal GDP	*0.0%*	*0.0%*	*0.0%*	*0.2%*	*0.4%*	*0.8%*
C1. Other initiatives	Additional consolidation efforts by states and municipalities.	102	110	128	685	1420	2710

II. Total revenue enhancement measures		1172	1302	3301	4985	6719	8703
	% of nominal GDP	*0.4%*	*0.4%*	*1.0%*	*1.5%*	*2.0%*	*2.5%*
A. Income taxes	Tax on income after re-zoning of property and taxes on real estate and immovable property sales; decreased tax privileges for the 13th and 14th salaries.	0	0	460	1 020	1 630	2 490
B. Corporate income taxes (bank levy)	Restrictions on group taxation laws.	500	500	550	625	700	775
C. Value-added tax	Stricter rules for construction projects and extension of VAT deductions.	0	130	430	730	1 030	1 330
D. Excise duties	Abolishing of tax privileges on mineral oil tax for city buses, railway vehicles, and farmers.	572	572	642	722	802	882
E. Financial transaction tax	Financial transaction tax.	0	0	0	500	1 000	1 500
F. Other tax measures	Reduction of tax expenditures for household saving schemes and private pension insurance.	0	0	119	238	357	476
G. Fighting tax fraud	Flat rate withholding tax on capital gains in Switzerland.	100	100	1100	1150	1200	1250

Notes: The percentage of nominal GDP is calculated by the OECD, based on the government's GDP.

Source: "OECD Fiscal Consolidation Survey 2012".

4. Institutional reforms

The government has introduced essential changes in several areas of its fiscal institutional framework:

Long-term projections	By 2013, long-term projections covering 30 years, according to second stage of budget law reform.
Fiscal rules	Federal debt brake rule (December 2011).
Medium-term expenditure framework (MTEF)	Legally binding MTEF for four years (first stage of budget law reform since 2009).
Performance and results	Second stage of budget law reform starting in 2013.
Budget execution practices	New rules for reserves: introduction of carrying forward the unused funds at the end of the fiscal year (implemented during first stage of budget law reform since 2009).
Legal basis of the framework	Budget law reform in two stages (2009-13); federal debt brake rule approved in December 2011.

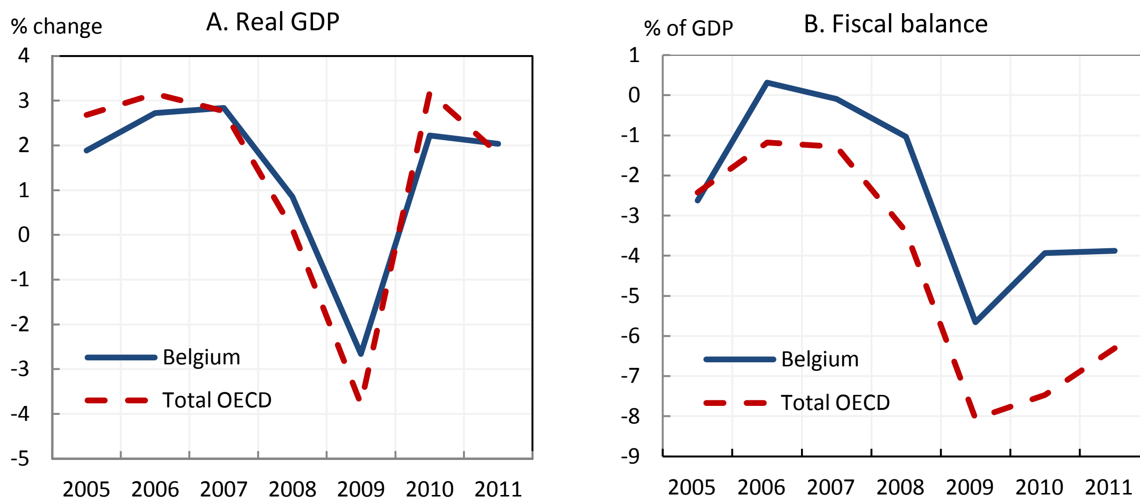
BELGIUM

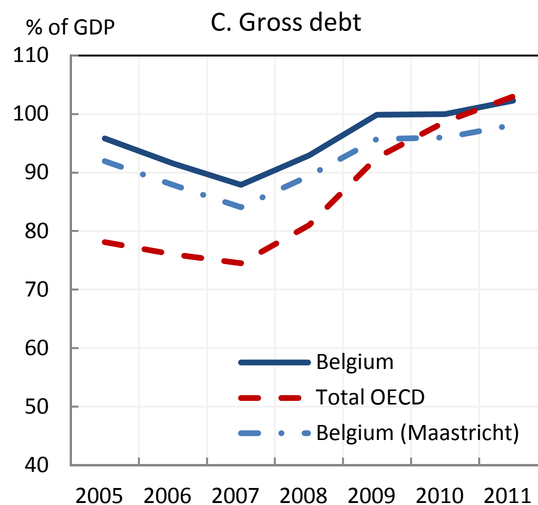
1. Economic situation

After relatively strong growth in 2010 and the first half of 2011, the economy slowed under the influence of renewed international turmoil as exports weakened and falling confidence curbed domestic demand (Figure 1A). Fiscal consolidation allowed the general government fiscal deficit to be reduced in 2010 and 2011, after a record high deficit the year before (Figure 1B). The general government gross debt in national accounts terms stabilised at a high level of about 100% of GDP, although the Maastricht definition of debt remained below the 100% mark (Figure 1C). The high level of debt has led to financial market sovereign debt concerns as reflected in large long term interest rate spreads vis-à-vis Germany reaching more than 200 basis points on a number of occasions. Additional large scale fiscal consolidation is needed to calm such concerns and to secure long-term fiscal sustainability.

The OECD foresees faster growth from mid-2012 onwards, supported by favourable monetary conditions and higher international demand for Belgian goods. However, the planned fiscal consolidation will restrain the speed of the recovery.

Figure 1. Key economic indicators





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

Source: OECD (2012), OECD Economic Outlook, Vol. 2012/1, OECD Publishing.

2. The government's fiscal consolidation plan

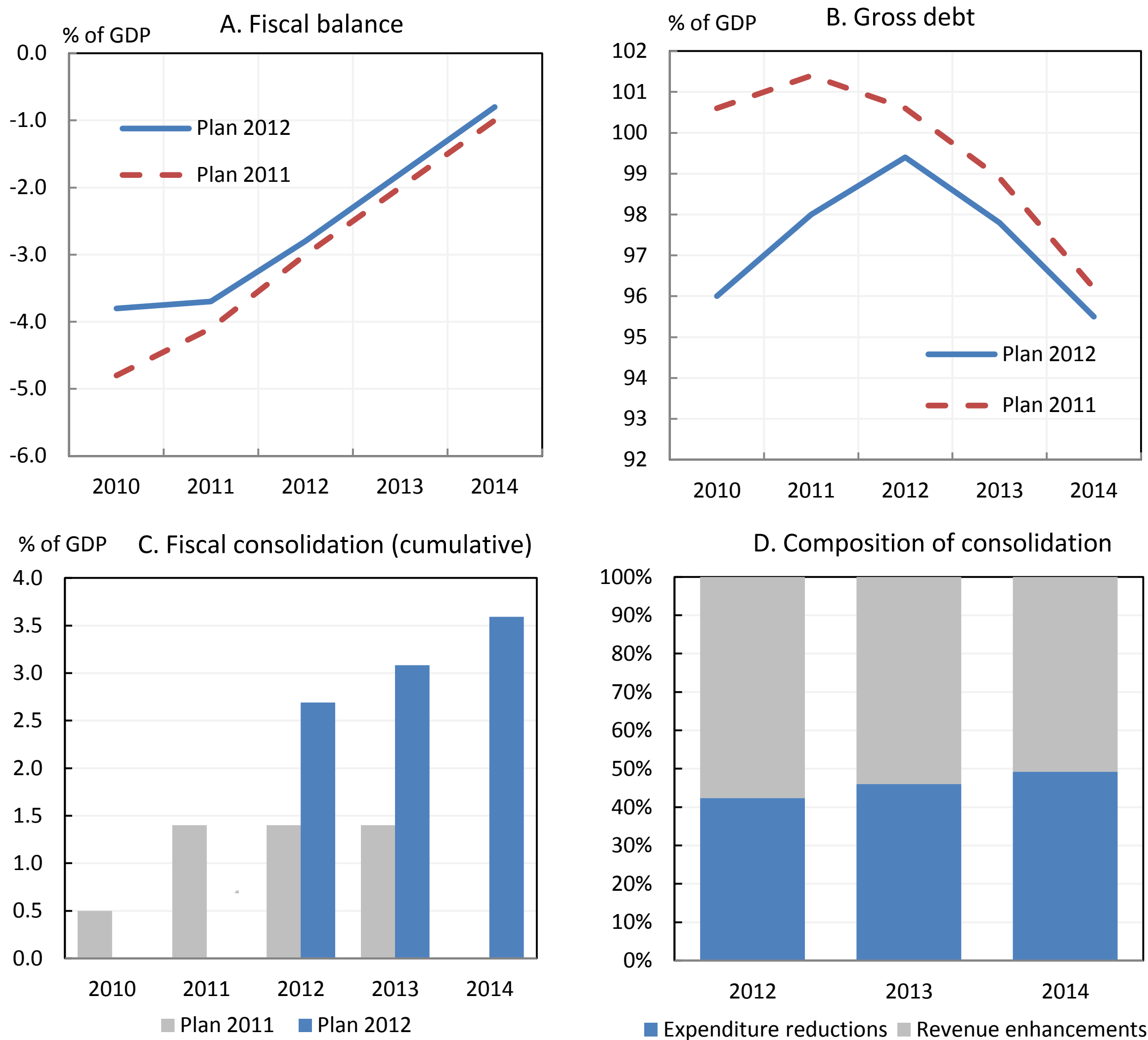
The Di Rupo government (in place since December 2011) has established a new fiscal consolidation plan encompassing the federal government and social security. In the Stability Programme of April 2011, the general government budget deficit for 2012 was projected at 2.8% of GDP, leading to a balanced budget in 2015. In addition, following the advice from the Higher Finance Council, the government intends to negotiate an agreement among all involved policy levels in order to settle the fiscal consolidation contributions of the regions and the local authorities, leading to a targeted deficit of 0.4% of GDP in 2012 (Figure 2A).

Since 2010, Belgium has been subject to the European Commission procedure of excessive deficits. For 2011, a target of 3.6% was set, but the realised deficit was 3.7%, leading to general government debt of 98% of GDP. The next debt projections will be available in the next Stability Programme in April 2012, including projections for 2013-14 (Figure 2B).

The federal government has agreed to make a cumulative consolidation effort of 2.7% of GDP in 2012 (Figure 2C). As a consequence of an actual deficit above the target in 2011, more consolidations have to be introduced to reach the target for 2012. In addition, the budget for 2012 was elaborated on the basis of a real growth rate of 0.8% (and 2.1% for 2013-14), leading to an additional fiscal consolidation package in early 2012. In total, the incremental fiscal consolidation efforts in 2012 should amount to nearly 1% of GDP. The composition of measures in 2012 is 1.1% of GDP on the expenditure side, 1.5% on the revenue side, and approximately 0.4% as other measures (Figure 2D). The measures relate to the federal government and social security. Most of the expenditure measures relate to cuts in health care.

The government has taken some steps to promote economic growth during fiscal consolidation by stimulating the unemployed to find a new job, and has introduced initiatives to raise the economic activity rate and keep employees at work longer by adapting the early pension system.

Figure 2. The government's planned fiscal consolidation



Notes: Fiscal balance and gross debt are general government financial balance and gross financial liabilities (Maastricht basis) as a per cent of nominal GDP projected by the government. Fiscal consolidation is the cumulative consolidation volume as a per cent of nominal GDP projected by the government. The composition of consolidation is expenditure reductions and revenue enhancements in the actual year (cumulative, total 100%). Belgium did not provide data on implemented consolidation in 2010-11.

Sources: "OECD Fiscal Consolidation Survey 2012" and "Restoring Public Finances" (OECD 2011).

Table 1. The government's fiscal consolidation plan

	2010	2011	2012	2013	2014
Fiscal consolidation volume and path, % of nominal GDP					
Total fiscal consolidation volume			2.7	3.1	3.6
Fiscal balance, deficit (-)/ surplus (+)	-3.8	-3.7	-2.8	-1.8	-0.8
Gross debt	96.0	98.0	99.4	97.8	95.5
GDP growth rate in per cent, year on year					
Nominal GDP growth forecasts		4.5%	3.3%	4.5%	4.3%
Fiscal consolidation by expenditure reductions and revenue enhancements (total = 100%)					
Expenditure reductions			42%	46%	49%
Revenue enhancements			58%	54%	51%
Fiscal consolidation, billion EUR					
Expenditure reductions			4 364	5 672	7 370
Revenue enhancements			5 927	6 649	7 615
Total consolidation			10 291	12 321	14 985

Notes: Nominal GDP growth forecasts were calculated by the OECD on the basis of government estimates of nominal GDP. Fiscal consolidation in national currency is calculated by the OECD based on government estimates of consolidation volume in per cent of GDP.

Sources: "OECD Fiscal Consolidation Survey 2012" and OECD calculations.

3. Major consolidation measures

The expenditure measure that contributes the most to fiscal consolidation is the withholding of some health care resources. Substantial contributions also arise from globally targeted cuts in federal government costs, pension reforms, and measures related to social security.

On the revenue side, the most important measures are: an increase in corporate income taxes; a general revenue increase due to efforts to fight tax fraud; and increased taxes on financial property.

Table 2. Major consolidation measures

Million EUR (% of nominal GDP)

		2012	2013	2014
I. Expenditures		4 363.8	5 671.8	7 370.3
	% of nominal GDP	*1.1%*	*1.4%*	*1.8%*
A. Operational measures		1 189.4	1 240.9	1 608.7
	% of nominal GDP	*0.3%*	*0.3%*	*0.4%*
A1. Staff expenditure	Direct cost savings on personnel expenditures.	120.0	210.0	235.2
A2. Operational expenditure	Reducing the federal government's operational costs.	71.0	122.0	174.0
A3. Mixed expenditure	Globally targeted cuts in federal government costs.	998.4	908.9	1 199.5
B. Programme measures		3 174.4	4 430.9	5 761.6
	% of nominal GDP	*0.8%*	*1.1%*	*1.4%*
B1. Unemployment benefits	Tightening conditions of early retirement and unemployment benefits, etc.	293.1	417.3	572.5
B2. Pensions	Government pension reform, private sector pension reform.	88.6	394.9	744.7
B3. Health care	Withholding part of health care resources (*e.g.* health care insurance), etc.	2 343.3	2 844.1	3 451.8
B4. Social security	Tightening conditions for career interruption; increasing social security contributions; reducing social security operating costs; etc.	199.4	474.5	692.6
B5. Expenditure cuts to regional/ local authorities		250.0	300.0	300.0
II. Total revenue enhancement measures		5 926.9	6 649.5	7 614.5
	% of nominal GDP	*1.5%*	*1.7%*	*1.8%*
A. Personal income taxes	Additional taxation of stock options, vehicles, etc.	395.0	404.3	413.7
B. Corporate income taxes (tax on the financial sector)	Taxes on banks and on stock exchange companies participating in the Special Deposit Protection Fund, changes in capital deduction, etc.	1 770.0	2 149.0	2 498.0
C. Value-added tax	VAT on services (bailiff, notary and television, etc.).	239.0	246.8	255.1
D. Excise duties	Increased excise duties on tobacco.	158.0	158.0	158.0
E. Tax expenditure	Reducing deductions for energy saving investments, etc.	0.0	356.0	716.0
F. Fighting tax fraud		720.0	1 000.0	1 500.0
G. Tax on energy sector		300.0	300.0	300.0
H. Taxes on financial property	Additional taxation of interest and dividends and tax on stock exchange operations.	967.0	979.0	993.0

Other measures (included in total revenue enhancement measures)		1 377.9	1 056.5	780.7
	% of nominal GDP	*0.4%*	*0.3%*	*0.2%*
New initiatives	Increase general tax exemption; reduce personnel expenditure for first three recruitments; etc.	0.0	-285.0	-600.0
Other receipts	Receipts stemming from lottery monopoly and dividends; strengthening collection; higher fines; etc.	1 274.2	869.0	652.8
Interest expenditure gains	Interest expenditure gains due to revenue enhancement and expenditure cuts.	0.0	259.0	440.5
Structural reform	Revenue and expenditure linked to state reform.	103.7	213.5	287.4

Notes: The percentage of nominal GDP is calculated by the OECD, based on the government's GCP.

Source: "OECD Fiscal Consolidation Survey 2012".

Pension

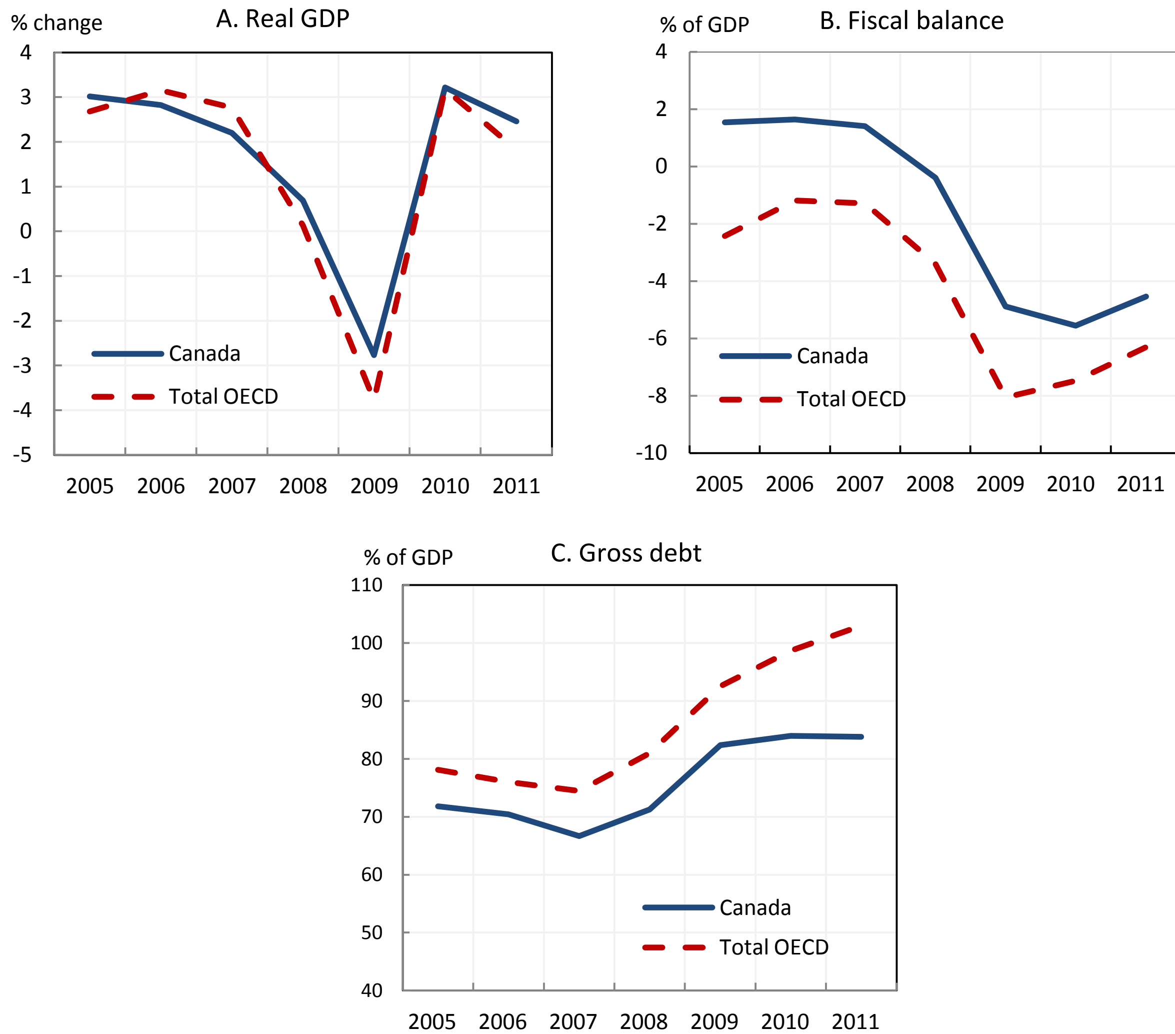
The government has introduced structural reforms of the pension system which will come into force as of 2013. First, the early retirement age will be increased from 60 to 62, in both the private and the public sector (six months per year from 2013 to 2016). Second, measures will be introduced to authorise and encourage people to work after the legal retirement age of 65. Third, the pension bonus and fiscal incentives for long-term savings will be improved, to encourage longer careers. Finally, the differences between public and private sector pension regimes will be decreased.

CANADA

1. Economic situation

The Canadian economy recovered relatively strongly in 2010 and the real GDP growth rate returned to its pre-crisis level. The pace of growth slowed in 2011, as in most OECD member countries, mainly due to the renewed financial market turmoil linked to the European sovereign debt crisis and the associated erosion of confidence worldwide (Figure 1A). For 2011, the general government fiscal deficit is estimated to have been reduced to 4.5% of GDP and the general government gross debt is estimated to have edged down to 83.8% of GDP (Figure 1B and 1C). The outlook for the Canadian economy has improved as global risks have been attenuated. The OECD projects output to grow at roughly half a percentage point above its potential rate in 2012 and 2013, mainly driven by private consumption and business investment, with external demand expected to be increasingly supportive.

Figure 1. Key economic indicators



Notes: Fiscal balance is general government financial balance and gross debt is general government gross financial liabilities as a per cent of nominal GDP.
Source: OECD (2012), OECD Economic Outlook, Vol. 2012/1, OECD Publishing.

2. The government's fiscal consolidation plan

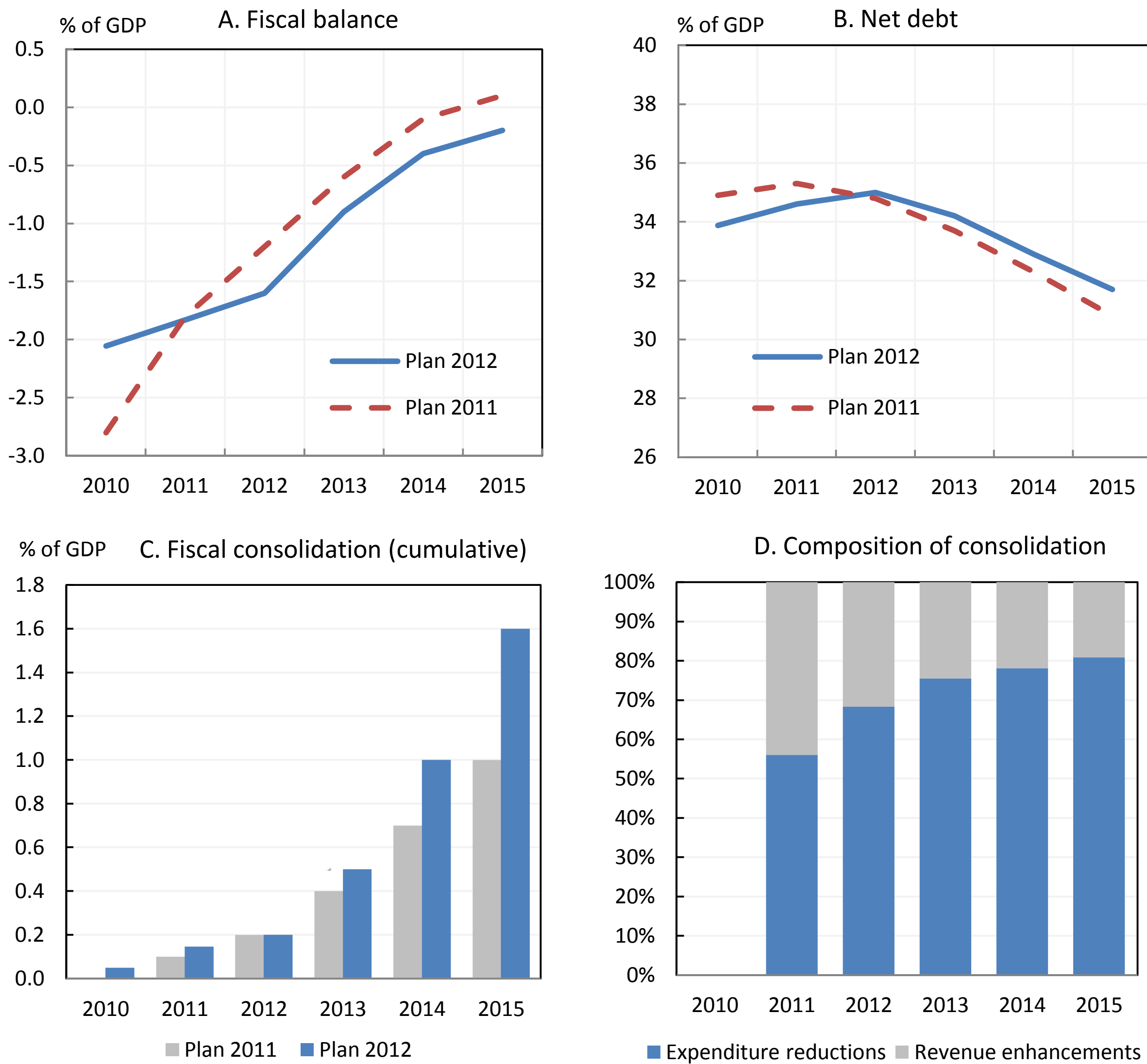
Canada's multi-year fiscal consolidation plan, which was initially announced in the federal 2010 Budget, is proceeding as expected and further measures have been introduced since. On top of the measures introduced in the 2010 Budget and 2011 Budget to reduce spending by CAD 15 billion and CAD 2 billion, respectively, over five years, the 2012 Budget suggests an additional CAD 20 billion in spending reduction over five years.

The 2012 Federal Budget indicated that the federal government expects to record a deficit of CAD 24.9 billion in 2011-12, representing a CAD 6 billion improvement relative to the estimate published in the Autumn Update. This improvement stems from the stronger profile for the economy than earlier envisaged, which has lifted revenues and reduced spending relative to what was earlier projected. The 2012 Federal Budget reiterated the government's earlier commitment to restore the budgetary balance by 2015-16, which will largely be implemented through spending restraint (Figure 2A). The federal government projects that its net debt will gradually edge down from 33.9% of GDP starting in 2012-13 (Figure 2B). Detailed results of the departmental spending review initiated in the 2010 Budget were published in the 2012 Budget. The 2012 budget indicated that savings amounted to roughly CAD 5.2 billion savings per year on an ongoing basis, representing 6.9% of the aggregate review base of CAD 75.3 billion and less than 2.0% of expected federal programme spending (Figure 2C).

At least over 80% of total consolidation is expected to be generated from expenditure reductions leaving. In total, the fiscal consolidation plans decided in 2010, and 2011 and 2012 display an increasing focus on expenditure reductions (Figure 2D).The federal government intends to shield economic growth during fiscal consolidation by phasing in consolidation measures as the economy recovers and by implementing targeted measures, including actions to support workers and small and medium-sized businesses. To this end, the 2012 Budget indicated a reduction in the planned increase in the Employment Insurance (EI) premium rate to 5 cents per year until the EI Operating Account is balanced. The rise in the employer EI premium rate and the adverse effect that this may have on hiring will be offset by extending the temporary Hiring Credit for Small Business for one more year, thereby allowing small businesses to qualify for a credit of up to CAD 1 000 per employee hired. The federal government has also fully implemented its planned reduction in the general corporate income tax rate during this consolidation period, lowering it from 19% in 2009 to 15% in January 2012. Finally, the 2012 Budget introduces measures to stimulate business innovation.

The proposed federal government expenditure cuts, combined with those being proposed by provincial governments, suggest that if implemented, total general government deficit would narrow to 2.4% of GDP in 2013.

Figure 2. The government's planned fiscal consolidation



Notes: Fiscal balance is federal government budgetary balance on a public accounts basis (does not include the Deficit Reduction Action Plan) and net debt is federal government accumulated deficit on a public account basis as a per cent of nominal GDP projected by the government. Fiscal consolidation is cumulative consolidation volume as a per cent of nominal GDP projected by the government. The composition of consolidation is expenditure reductions and revenue enhancements effective the actual year (cumulative, total 100%).

Sources: "OECD Fiscal Consolidation Survey 2012" and "Restoring Public Finances" (OECD 2011).

Table 1. The government's fiscal consolidation plan

	2010	2011	2012	2013	2014	2015
Fiscal consolidation volume and path, % of nominal GDP						
Total fiscal consolidation volume	0.0	0.1	0.2	0.5	1.0	1.6
Fiscal balance, deficit (-)/ surplus (+)	-2.1	-1.8	-1.6	-0.9	-0.4	-0.2
Net debt (accumulated deficit)	33.9	34.6	35.0	34.2	32.9	31.7
GDP growth rate in per cent, year on year						
Nominal GDP growth forecasts		6.3%	4.1%	3.5%	5.1%	5.1%
Fiscal consolidation through expenditure reductions and/or revenue enhancements (total = 100%)						
Expenditure reductions		56%	68%	76%	78%	81%
Revenue enhancements		44%	32%	24%	22%	19%
Fiscal consolidation, billion CAD						
Expenditure reductions		1.4	2.4	7.0	15.1	26.2
Revenue enhancements		1.1	1.1	2.3	4.2	6.2
Total consolidation	0.8	2.5	3.5	9.2	19.4	32.4

Notes: Nominal GDP growth forecasts are calculated by the OECD on the basis of government estimates of nominal GDP. Fiscal consolidation in national currency is calculated by the OECD based on government estimates of consolidation volume in per cent of GDP.

Source: "OECD Fiscal Consolidation Survey 2012" and OECD calculations.

3. Major consolidation measures

Canada's consolidation plan, as described in the 2010 federal budget includes, among others, allowing stimulus programmes to end as the economy recovers and targeting expenditure restraint measures, such as limiting growth in defence spending and freezing departmental operating budgets at 2010-11 levels for two years. Subsequently, the 2011 budget announced additional measures including delivering on the final results of the 2010 Strategic Review exercise, actions to close tax loopholes, and, most importantly, the deficit reduction action plan through which annual departmental spending will be reduced by at least 5% (CAD 4 billion).

The federal government estimates that approximately 70% of these ongoing savings are related to operating efficiencies. Moreover, the 2012 Budget revealed the federal government's intention to program a rise in the eligibility age for the first-pillar public pension plan to 67 to be phased in from 2023 to 2029 as well as reducing the rise in the Canada Health Transfer to provinces to a three-year moving average growth rate of nominal GDP starting in 2017-18, with funding guaranteed to rise at a minimum rate of 3% per year.

Table 2. Major consolidation measures

Billion CAD

		Total 2011 – 15
I. Expenditures		23.7
	% of nominal GDP	*1.2%*
A. Operational measures		6.8
	% of nominal GDP	*0.3%*
Government administration	Containing the administrative costs of government, including freezing operating budgets until 2013.	6.8
B. Programme measures		16.9
	% of nominal GDP	*0.8%*
General departmental spending	Cost savings announced in the 2010 and 2011 budgets as identified in the Strategic Reviews, and expected savings from deficit reduction action plan.	9.9
International assistance	Spending to be capped at 2010-2011 levels.	4.5
Defence	The growth in defence spending to be capped.	2.5
II. Total revenue enhancement measures		*5.6*
	% of nominal GDP	*0.3%*
Tax compliance	A number of measures to close loopholes and to improve the fairness of the tax system have been introduced.	5.6

Note: The percentage of nominal GDP is calculated by the OECD, based on the government's GDP forecasts.

Source: "OECD Fiscal Consolidation Survey 2012"

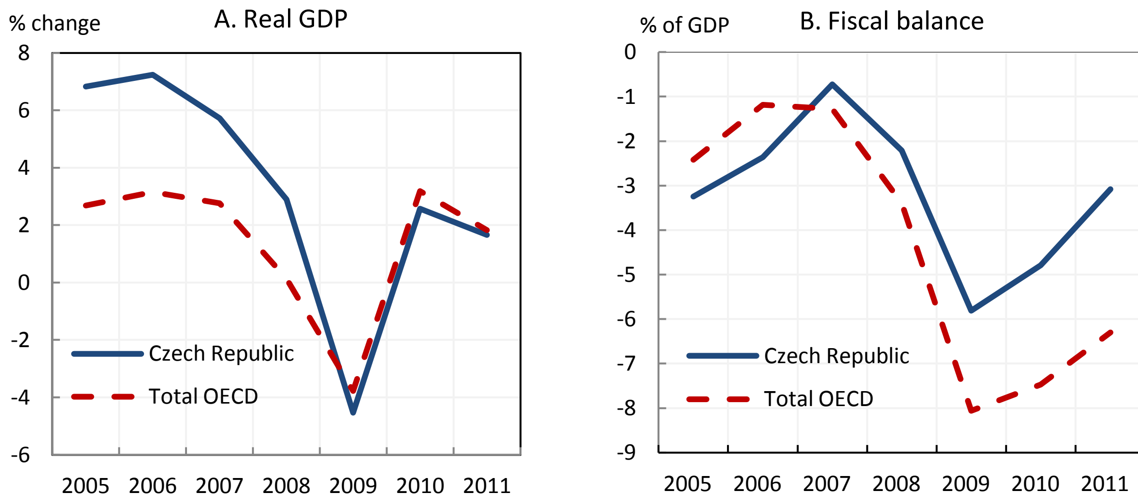
CZECH REPUBLIC

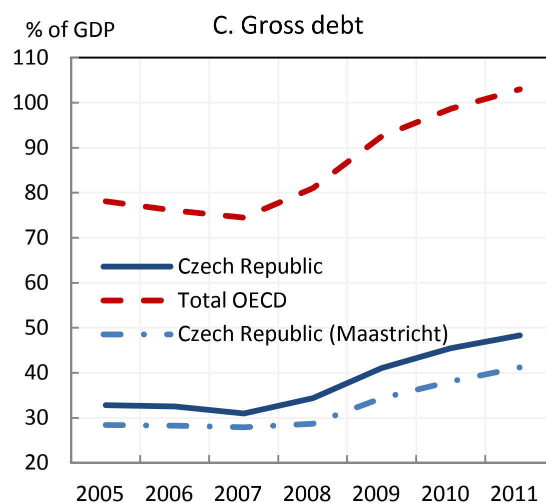
1. Economic situation

The export-led recovery of the Czech economy in 2010 was accompanied by weak domestic demand in the wake of frontloaded fiscal consolidation. Economic growth stagnated in 2011 as the country was hit by the ongoing global economic slowdown like most OECD countries, leaving the growth rate well below the pre-crisis level (Figure 1A). The general government fiscal balance has improved in 2010 and 2011 owing to fiscal consolidation. Notwithstanding, the general government balance is still below the EU threshold, but the fiscal performance of the Czech Republic is better than most OECD member countries (Figure 2B). The deficit adds to gross debt but the debt remains significantly below the OECD average at around 48% of GDP (Figure 2C).

The OECD projects that economic growth in the Czech Republic will become stronger and more broad-based again in 2013, underpinned by an improvement in world trade and recovery of domestic demand.

Figure 1. Key economic indicators





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

Source: OECD (2012), OECD Economic Outlook, Vol. 2012/1, OECD Publishing.

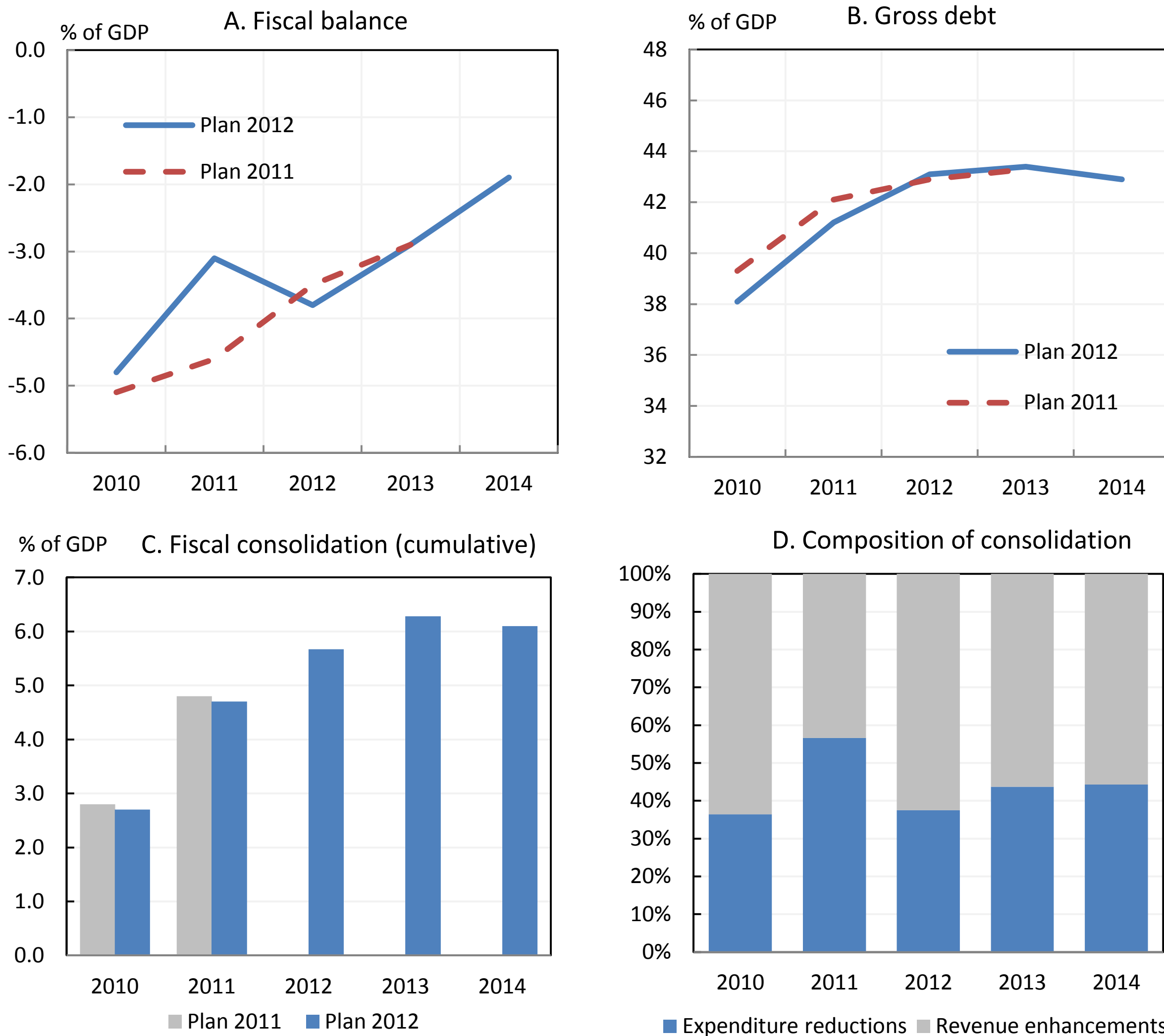
2. The government's fiscal consolidation plan

The government aims to achieve the benchmark of a general government fiscal deficit below 3% of GDP by 2013 and a balanced general government budget in 2016. The consolidation plan is confirmed in the 2012 budget which sets out consolidation measures over the medium term 2013-14 (Figure 2A). The general government gross debt (Maastricht basis) is projected to peak at 43.4% of GDP in 2013 (Figure 2B). In 2010-11, both the fiscal balance and the gross debt performed better than planned, due to lower debt-servicing and administrative costs (Figure 2A and 2B).

According to the government, the consolidation measures are being implemented according to plan, as reported in "Restoring Public Finances" (OECD, 2011). The authorities are pursuing budgetary tightening, with an emphasis on expenditure restraint in 2011, limiting its medium-term negative impact on growth. The fiscal consolidation is extended in the 2012 budget and is planned to peak at 6.3% of GDP in 2013 (Figure 2C). The composition of the consolidation measures has changed to more reliance on the revenue side as from 2012. The main new items are a lottery tax and increases in preferential VAT rate (Figure 2D).

The government foresees that the fiscal consolidation will boost confidence and lower the risk premium, thus causing a decrease in interest rates which in turn should be conducive to growth.

Figure 2. The government's planned fiscal consolidation



Notes: Fiscal balance and gross debt are based on general government data (Maastricht basis) as a per cent of nominal GDP projected by the government. Fiscal consolidation is the cumulative consolidation volume as a per cent of nominal GDP projected by the government. The composition of consolidation is expenditure reductions and revenue enhancements in the actual year (cumulative, total 100%).

Source: OECD 2012 Fiscal Consolidation Survey and OECD (2011).

Table 1. The government's fiscal consolidation plan

	2010	2011	2012	2013	2014
Fiscal consolidation volume and path, % of nominal GDP					
Total fiscal consolidation volume	2.7	4.7	*5.7*	*6.3*	*6.1*
Fiscal deficit (-)/ surplus (+)	-4.8	-3.1	-3.8	-2.9	-1.9
Gross debt	*38.1*	*41.2*	*43.1*	*43.4*	*42.9*
GDP growth rate in per cent, year on year					
Nominal GDP growth forecasts	1.0%	1.5%	2.2%	2.4%	4.1%
Fiscal consolidation by expenditure reductions and revenue enhancements (total = 100%)					
Expenditure reductions	36.4%	56.6%	37.5%	43.7%	44.3%
Revenue enhancements	63.6%	43.4%	62.5%	56.3%	55.7%
Fiscal consolidation, billion CZK					
Expenditure reductions	36.7	61.0	-1.7	27.4	-0.8
Revenue enhancements	65.2	17.2	43.6	2.4	-2.0
Total consolidation	101.9	180.1	222.0	251.8	254.6

Notes: Fiscal deficit/surplus and gross debt are based on general government data (Maastricht basis) as a per cent of nominal GDP. Nominal GDP growth forecasts were calculated by the OECD on the basis of government estimates of nominal GDP. Fiscal consolidation in national currency is calculated by the OECD based on government estimates of consolidation volume in per cent of GDP.

Sources: "OECD Fiscal Consolidation Survey 2012" and OECD calculations.

3. Major consolidation measures

The majority of the fiscal consolidation effort in the next few years will come from revenue measures, mainly higher preferential VAT rate and changes to social security contributions. In addition, a substantial contribution will come from a freeze in government expenditures (including a decrease of expenditure ceilings).

Table 2. Major consolidation measures

Billion CZK

		2010	2011	2012	2013	2014
I. Expenditures		37.7	89.3	71.4	93.8	91.7
	% of nominal GDP	*1.0%*	*2.3%*	*1.8%*	*2.3%*	*2.2%*
A. Operational measures		2.0	26.5	7.4	5.9	4.4
	% of nominal GDP	*0.1%*	*0.7%*	*0.2%*	*0.1%*	*0.1%*
A1. Staff expenditure	Decrease in public sector pay (government administration) by at least 10% (excluding teachers).	2.0	13.2	7.4	5.9	4.4
A2. Operational expenditures	Decrease in general operational expenditures and some capital expenditures with the stress on operational.		13.3			
B. Programme measures		9.1	17.9	11.4	9.4	9.1
	% of nominal GDP	*0.2%*	*0.5%*	*0.3%*	*0.2%*	*0.2%*
B1. Unemployment and social benefits	Temporary decrease of sickness benefits; reductions in social benefits and unemployment support.	2.2	14.8	11.4	9.4	9.1
B2. Pension expenditure	No increase in pensions (contrary to the original budget draft).	6.9				
B3. Infrastructure	Reduce expenditures.		3.1			
C. Other consolidation measures		26.6	44.9	52.6	78.5	78.2
	% of nominal GDP	*0.7%*	*1.2%*	*1.3%*	*2.0%*	*1.9%*
C1. Expenditure freeze	Expenditure freeze and other cost savings (decrease of expenditure ceilings).	26.6	44.9	49.6	70.4	69.4
C2.Others	Improvement of public sector effectiveness, decrease of state contribution to housing, and others (public sector expenditure increase in connection with the VAT adjustment, accident insurance).			3.0	8.1	8.8
II. Total revenue enhancement measures		65.8	68.5	119.0	120.9	115.4
	% of nominal GDP	*1.7%*	*1.8%*	*3.0%*	*3.0%*	*2.8%*
A. Personal income taxes	Individual income tax adjustment.	1.5	3.8	0.4	0.4	-18.8
B. Corporate income taxes	Taxation of gambling activities and lotteries (up to) 20%.			8.7	8.7	7.2
C. Value-added tax	Increase in VAT rates to 20% beginning January 2010.	17.8	18.0	45.0	45.8	50.5
D. Excise duties	Increase in excise taxes.	11.1		13.2	13.2	13.2
E. Social	Ceiling raised on income subject	32.6	45.5	44.7	50.2	60.7

		2010	2011	2012	2013	2014
security	to contributions; cut in employers' contributions postponed; cancellation of reduction in employers' contributions including health and accident insurance.					
F. Real estate taxes	Doubling real estate tax rates (except for agricultural land).	2.8				
G. Increase of toll rate	25% increase.		1.2	2.6	2.6	2.6
H. Inheritance and gift tax	Tax on capital transfers.			4.4	0.0	0.0

Notes: The percentage of nominal GDP is calculated by the OECD, based on the government's GDP forecasts.

Source: "OECD Fiscal Consolidation Survey 2012".

4. Institutional reforms

The government has introduced essential changes in several areas of its fiscal institutional framework:

Top-down budgeting	The principles of performance budgeting have been introduced in central government units on a voluntary basis.
Budget approval process	The budget approval process is adapted to the European semester, the EU budget surveillance procedures, and fiscal and structural policy co-ordination within the EU.
Budget execution practices	The state treasury has been under restructuring for three years, particularly its budgetary information system. The overall aim is to upgrade the current monitoring and budgetary management system and streamline the central government's cash management across all levels of government. The budgetary information system is divided into four subsystems: state accounts, payment system, budget formulation, and budget performance. The system should be fully operational by January 2013.

Following the government's recent approval of the main outlines of the ongoing strengthening of the fiscal framework, the government is working on a legislative proposal for introduction of a constitutional (debt-brake) rule and setting up a fiscal council.

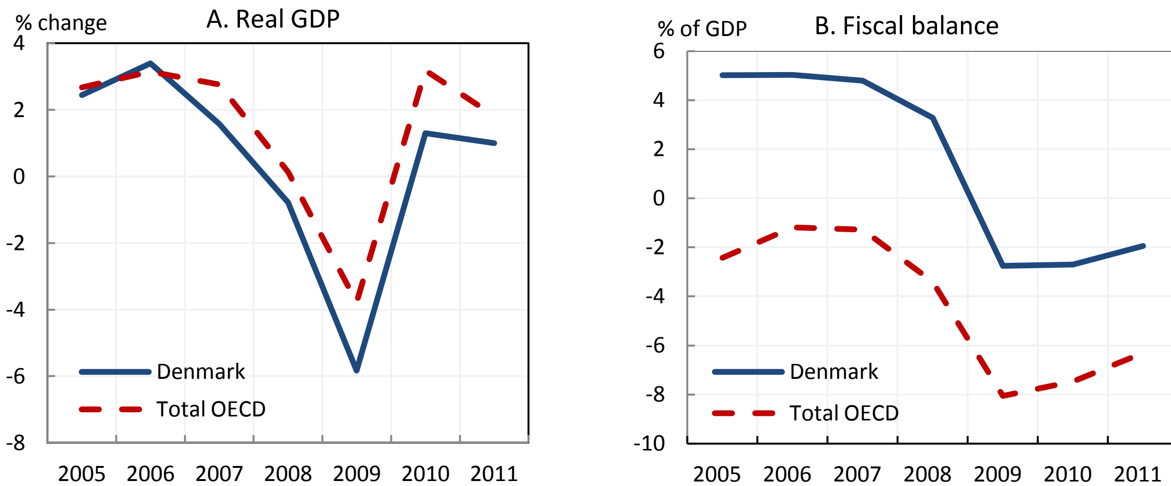
DENMARK

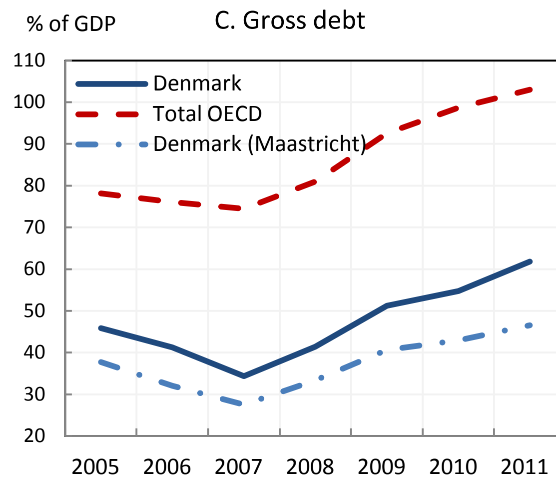
1. Economic situation

The slow recovery of the Danish economy in 2010 left the GDP growth rate well below its pre-crisis level. Economic growth was modest in 2011 as the country was hit by the ongoing global economic slowdown. Like most OECD countries, the slowdown was to a large extent due to low public consumption, postponed private investment and hesitant household consumption (Figure 1A).

Prior to the crisis, the Danish fiscal position was favourable and paved the way for a declining debt-to-GDP ratio, reaching a level substantially below that seen in other OECD countries. In 2010 and 2011, Denmark continued to enjoy a better fiscal performance than most other OECD countries, and in 2011, the Danish fiscal deficit was 1.9% of GDP and general government debt increased to 61.8% of GDP (Figure 1B and 1C). The OECD projects that the growth of the Danish economy in 2012 will be driven mainly by fiscal stimulus and the economy will gradually improve in 2013 as world trade expands and private domestic demand picks up.

Figure 1. Key economic indicators





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

Source: OECD (2012), OECD Economic Outlook, Vol. 2012/1, OECD Publishing.

2. The government's fiscal consolidation plan

The fiscal consolidation plan of the new coalition government, led by the Social Democrats, covers the period 2011-13. The plan aims to follow the European Commission's recommendation to improve the structural budget balance by 1.5% of GDP by 2013, leading to a targeted fiscal deficit in 2013 of 2.6% of GDP.

However, the new government that came into office in October 2011 introduced a fiscal stimulus ("kick-start", see below) in 2012 in the form of increased public investment. As a result, budget deficit and gross debt in 2012 are larger than in the consolidation plan originally presented in the "Fiscal Consolidation Agreement" of May 2010, which was the basis for "Restoring Public Finances" (OECD, 2011) (Figures 2A and 2B). The consolidation effort required in 2013 to achieve European commitment is therefore also higher (Figure 2C). The total fiscal consolidation is planned to reach DKK 49 billion by 2013.

The new government has increased taxes and excise duties by DKK 5 billion – a permanent amount now dedicated to financing higher public expenditures. The consolidation plan in 2012 and 2013 therefore relies more on increases in taxes and excise duties than on expenditure cuts, in contrast to the previous government's consolidation plan (Figure 2D).

The reform of the early retirement programmes adopted by the Parliament in December 2011 improves the fiscal balance in the longer term. The measures include a later retirement age and changes to the early retirement scheme.

In order to support growth and employment, public investment of nearly DKK 11 billion in 2012 and DKK 8 billion in 2013 is being brought forward as part of a hoped 'kick-start' of the Danish economy. The government estimates that this stimulus will increase GDP by 0.4% in 2012 and 2013. In addition, the one-off release of early retirement contributions (to a now defunct scheme) is estimated to increase GDP activity by 0.2% in 2012.

Figure 2. The government's planned fiscal consolidation

Notes: Fiscal balance and gross debt are based on general government data (Maastricht basis) as a per cent of nominal GDP projected by the government. Fiscal consolidation is the cumulative consolidation volume as a per cent of nominal GDP projected by the government. The composition of consolidation is expenditure reductions and revenue enhancements in the actual year (cumulative, total 100%).

Source: "OECD Fiscal Consolidation Survey 2012".

Table 1. The government's fiscal consolidation plan

	2010	2011	2012	2013
Fiscal consolidation volume and path, % of nominal GDP				
Total fiscal consolidation volume		0.9%	0.9%	2.6%
Fiscal deficit (-)/ surplus (+)	-2.5%	-1.8%	-5.5%	-2.6%
Gross debt	42.9%	46.5%	42.4%	44.0%
GDP growth rate in per cent, year on year				
Nominal GDP growth forecasts		1.9%	2.6%	2.8%
Fiscal consolidation by expenditure reductions and revenue enhancements (total = 100%)				
Expenditure reductions		62%	15%	46%
Revenue enhancements		38%	85%	54%
Fiscal consolidation, billion DKK				
Expenditure reductions		*10.0*	*2.5*	*22.6*
Revenue enhancements		*6.1*	*14.0*	*26.5*
Total consolidation		*16.1*	*16.5*	*49.1*

Notes: Fiscal balance and gross debt are based on general government data (Maastricht basis) as a per cent of nominal GDP. Nominal GDP growth forecasts are calculated by the OECD on the basis of government estimates of nominal GDP. Fiscal consolidation in national currency is calculated by the OECD based on government estimates of consolidation volume in per cent of GDP.

Sources: "OECD Fiscal Consolidation Survey 2012" and OECD calculations.

3. Major consolidation measures

The Budget Bill for 2012 includes additional funds for research, education and the health sector. However, a modest growth in public consumption (in real terms) of 0.75% (year on year) in 2011-13 is still a vital part of the fiscal consolidation plan. On the revenue side, the automatic adjustment of income thresholds for taxes, etc., will be suspended in 2011-13, contributing around 0.33% of GDP in 2013 to the fiscal consolidation.

Table 2. Major consolidation measures

Billion DKK

		2011	2012	2013
I. Expenditures		**10.0**	**1.6**	**22.2**
	% of nominal GDP	*0.6%*	*0.1%*	*1.2%*
A. Operational measures		**7.0**	**2.2**	**19.2**
	% of nominal GDP	*0.4%*	*0.1%*	*1.0%*
A1. Public consumption	In the general government, general savings of 2.5% in 2012 and 5% in 2013 will be implemented.	0.5%	0.5%	0.8%
A2. Normalisation of public investments	Public investment is brought forward to 2012. In the entire period 2011-13, the investment level is estimated to improve the structural balance by 0.3% of GDP (negative real growth in public investment of 23.5% in 2013).	-0.1%	-0.4%	0.3%

B. Programme measures		3.0	-0.7	2.9
	% of nominal GDP	*0.2%*	*0.0%*	*0.2%*
B1. Income transfers and other expenditures	The duration of the unemployment benefit period was reduced from four to two years as part of the May 2010 Fiscal Consolidation Agreement. In the Budget Bill for 2012, the duration period is temporarily extended by six months for the unemployed who will have exhausted their unemployment benefits in the second half of 2012.	n.a.	n.a.	n.a.
B2. Child benefits	An overall reduction in the rates for child benefits of 5% in 2011-13.	n.a.	n.a.	n.a.
II. Total revenue enhancement measures		**6.2**	**13.6**	**26.2**
	% of nominal GDP	*0.3%*	*0.7%*	*1.4%*
A. Personal income taxes	Subtotal	0.1%	0.1%	0.4%
	The automatic adjustment of income thresholds for taxes, etc. will be suspended in 2011-13. Moreover, the previously planned increase in the income limit for the top bracket tax in 2011 will be postponed for three years until 2014, and there is an annual ceiling of DKK 3 000 on tax deduction of union fees.	n.a.	n.a.	n.a.
	The Budget Bill for 2012 reduces the ceiling on yearly deductable payments on pensions with annuity payments from DKK 100 000 to DKK 55 000.	n.a.	n.a.	n.a.
B. Excise duties	The Budget Bill for 2012 involves higher excise duties on products like beer, wine and cigarettes and higher excise taxes on contaminating items to reduce pollution.	0.2%	0.4%	0.7%
C. Other taxes	The Budget Bill for 2012 involves higher taxation on multinational companies.	0.0	0.2%	0.2%

Notes: The actual value of DKK is calculated by the OECD, based on the government's GDP forecasts.

Source: "OECD Fiscal Consolidation Survey 2012".

4. Institutional reforms

The government has introduced changes in its fiscal institutional framework related to fiscal rules. The target for the structural budget balance has been changed in order to comply with a recommendation by the European Commission (ECOFIN) to improve the structural budget balance by 1.5% of GDP in 2011-13, and thereby reduce the fiscal deficit to below 3% of GDP in 2013. In Denmark's Convergence Programme for 2011, the target is structural budget balance in 2020. The previous tax freeze has been abolished, and in the Budget Bill for 2012 there were additional increases in taxes and excises of DKK 5 billion.

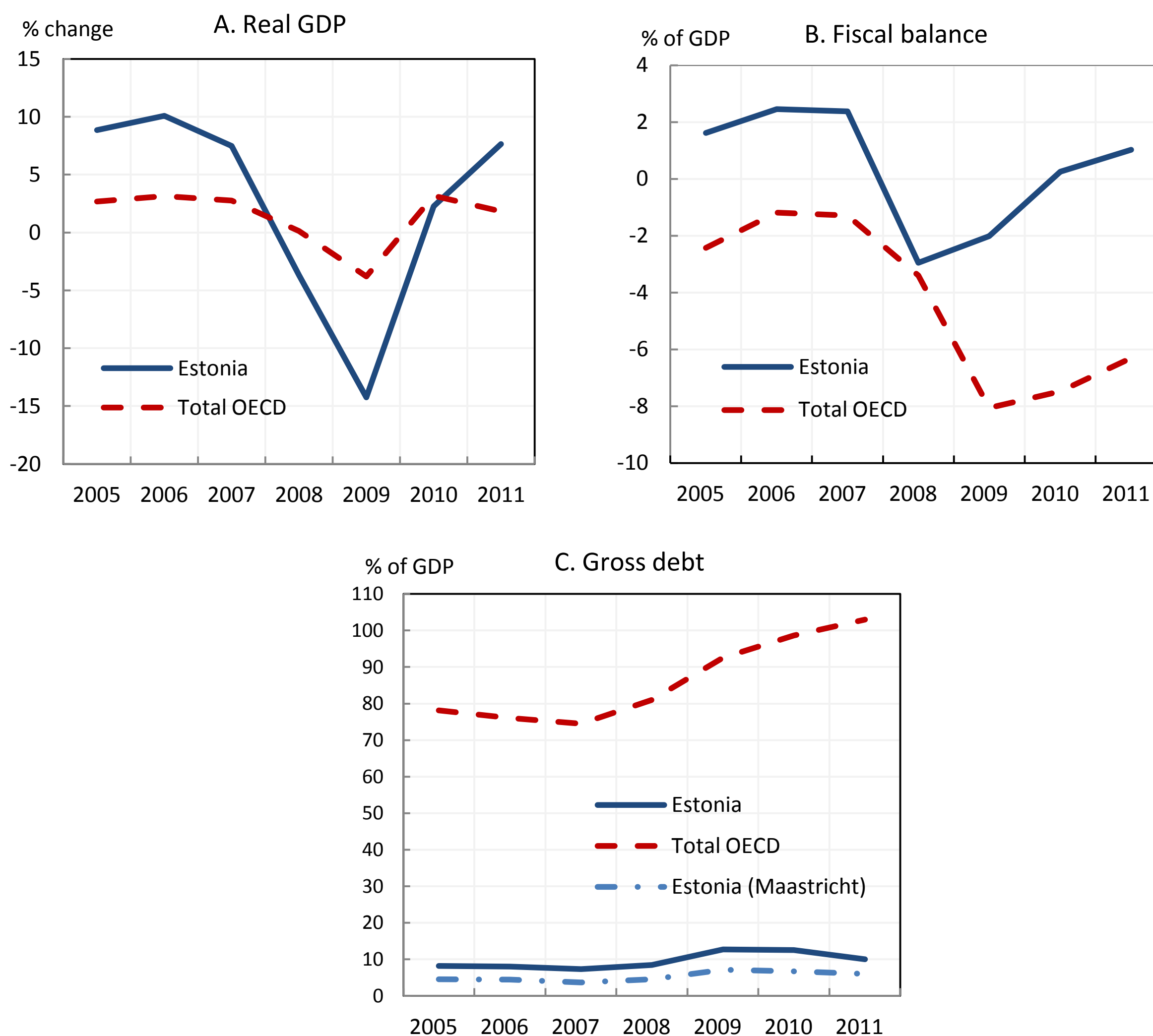
On 27 March 2012, the government reached a political agreement to introduce ceilings, adopted by the parliament as part of a budget law, on spending by the central government, regions and municipalities. The first ceilings will be established in the second quarter of 2013 and cover the period 2014-17.

ESTONIA

1. Economic situation

Estonia enjoyed a very rapid export-led recovery in 2010 and 2011, due to reduced unit labour costs and recent investments in export-oriented manufacturing sectors, thus outperforming other European OECD countries (Figure 1A). The general government fiscal balance returned to a small surplus by 2010, benefiting from severe front-loaded austerity measures after the financial crisis and substantial one-off measures (Figure 1B). The general government gross debt as a percentage of GDP peaked in 2009 at the lowest level among OECD countries (12.7% at national account definition), and is slowly heading downwards (Figure 1C). The OECD projects that the Estonian economy will weaken substantially in 2012 due to the weak external environment. As world trade growth improves, activity is projected to pick up again in 2013.

Figure 1. Key economic indicators



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

Source: OECD (2012), OECD Economic Outlook, Vol. 2012/1, OECD Publishing.

2. The government's fiscal consolidation plan

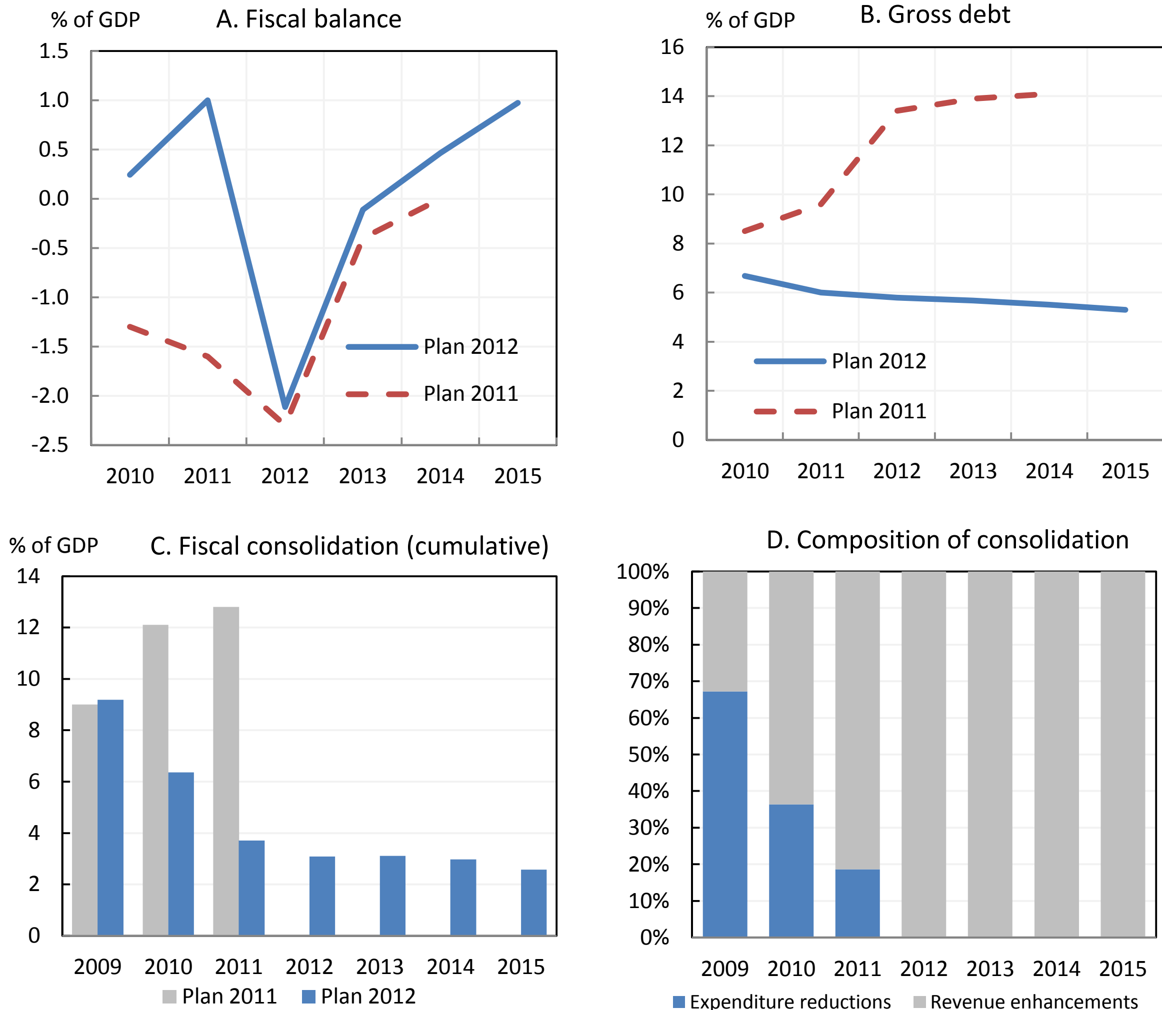
Estonia succeeded in qualifying for adoption of the euro in January 2011 by implementing severe front-loaded consolidation measures as early as 2008. The government's fiscal consolidation, its conservative fiscal policy and a rapid recovery of the economy led to a general government fiscal surplus in 2010 and 2011. However, the government has projected a deficit in 2012 (Figure 2A). The government now projects that the gross debt (Maastricht basis) will decline to 5.3% of GDP by 2015, well below its own projections from last year and thus outperforming all other OECD countries (Figure 2B).

According to the government's response to the fiscal consolidation survey, fiscal consolidation was implemented as planned during the period 2008-10. Compared to "Restoring Public Finances" (OECD, 2011), it seems that the cumulative consolidation efforts have been less than what was previously reported. However, the fiscal situation is better, as Estonia reached a surplus in both 2010 and 2011 whereas it had projected deficits. Estonia does not have an official consolidation plan after 2010 but continues to apply a conservative fiscal policy that encompasses, among others, requirements for a structural surplus, for a nominal surplus from 2013, and for the tax burden to return to the pre-crisis level. The Parliament has adopted a new law on local municipality financing in order to ease control over general government financial players. The law obliges local governments, among others, to undertake compulsory medium-term financial planning; primary expenditures must not exceed primary revenues; and the threshold of net debt must stay between 60% and 100%. Based on this policy, the government has reported fiscal consolidation for a longer period, relying solely on revenue measures as of 2012 (Figure 2C and 2D).

The fiscal consolidation affects mostly the central government and social security. The government has ring-fenced the policy sectors of education, housing and community amenities, public order and safety, and recreation, culture and religion (Figure 2E and 2F).

The government has promoted growth during fiscal consolidation by keeping investments high, front-loading the use of EU structural funds, focusing on the important role of education and providing a high level of public financing for education, as well as business support measures.

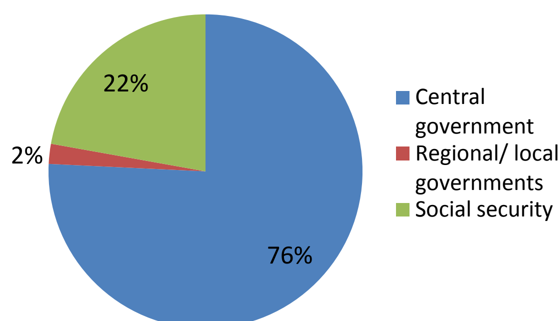
Figure 2. The government's planned fiscal consolidation



E. Sectors affected by fiscal consolidation

No expenditure cuts	Education
	Housing and community amenities
	Public order and safety
	Recreation, culture and religion
Minor expenditure cuts	General public services
Significant expenditure cuts	Defence
	Economic affairs
	Environmental protection
	Health
	Social protection

F. Consolidation by level of government



Notes: Fiscal balance and gross debt are based on general government data (Maastricht basis) as a per cent of nominal GDP projected by the government. Fiscal consolidation is the cumulative consolidation volume as a per cent of nominal GDP projected by the government. The composition of consolidation is expenditure reductions and revenue enhancements in the actual year (cumulative, total 100%). Consolidation by level of government is the annual average. Sectors affected by fiscal consolidation are based on 2009 data.

Source: "OECD Fiscal Consolidation Survey 2012" and OECD (2011).

Table 1. The government's fiscal consolidation plan

	2009	2010	2011	2012	2013	2014	2015
Fiscal consolidation volume and path, % of nominal GDP							
Total fiscal consolidation volume	9.2%	6.4%	3.7%	3.1%	3.1%	3.0%	2.6%
Fiscal deficit (-)/ surplus (+)	-2.0	0.2	1.0	-2.1	-0.1	0.5	1.0
Gross debt	7.2	6.7	6.0	5.8	5.7	5.5	5.3
GDP growth rate in per cent, year on year							
Nominal GDP growth forecasts		3.4%	12.2%	5.8%	6.6%	6.3%	6.4%
Fiscal consolidation by expenditure reductions and revenue enhancements (total = 100%)							
Expenditure reductions	67.2%	36.4%	18.7%	0.0%	0.0%	0.0%	0.0%
Revenue enhancements	32.8%	63.6%	81.3%	100.0%	100.0%	100.0%	100.0%
Fiscal consolidation, million EUR							
Expenditure reductions	854.5	331.1	111.1	0.0	0.0	0.0	0.0
Revenue enhancements	417.3	578.3	484.4	523.6	561.6	571.0	526.4
Total consolidation	1 271.8	909.4	595.5	523.6	561.6	571.0	526.4

Notes: Fiscal balance and gross debt are based on general government data (Maastricht basis) as a per cent of nominal GDP. Nominal GDP growth forecasts are calculated by the OECD on the basis of government estimates of nominal GDP. Fiscal consolidation in national currency is calculated by the OECD based on government estimates of consolidation volume in per cent of GDP.

Source: "OECD Fiscal Consolidation Survey 2012" and OECD calculations.

3. Major consolidation measures

The overall size of fiscal consolidation measures is driven by the revenue side reflecting mainly effects of earlier tax rate increases, including increasing the VAT rate to 20%, increasing excise duties and raising the unemployment insurance payment to 4.2% (to be lowered to 3% in 2013). While further tobacco and alcohol excise duty increases are planned and the maximum deductable amount regarding

personal income tax (PIT) will be reduced, the impact of these measures will be partly offset by the future planned reduction of the PIT rate and establishing a social tax ceiling.

Table 2. Major consolidation measures

Million EUR (cumulative)

		2009	2010	2011	2012	2013	2014	2015
I. Expenditures		854.5	331.1	111.1	0.0	0.0	0.0	0.0
	Per cent of nominal GDP	*6.2%*	*2.3%*	*0.7%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
A. Operational measures		100.7	57.8	0.0	0.0	0.0	0.0	0.0
	Per cent of nominal GDP	*0.7%*	*0.4%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
A1. Operational expenditures	Operational budget cuts, including personnel expenditures.	100.7	57.8					
B. Programme measures		454.5	113.5	111.1	0.0	0.0	0.0	0.0
	Per cent of nominal GDP	*3.3%*	*0.8%*	*0.7%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
B1. Pensions	Suspending the second pillar funded pension scheme.	85.4	71.4	79.1				
	Decreasing the raise in pensions (raise 5% instead of planned 14%).	78.2						
B2. Social security	Reduction of health insurance costs.	39.1						
	Introduction of changes in employment act, etc.	49.1						
	Reform of sick-note compensation scheme.	19.9						
	Decrease in the liabilities of health insurance fund.	7.0						
B3. Defence expenditures		30.9	10.1					
B4. Construction	Road maintenance.	52.1						
B5. Transfers to local governments	Decreasing the share of income tax received by municipalities, etc.	38.3						
B6. Lending to local municipalities	Limiting lending to local government.	32.0	32.0	32.0				
B7. Investments	Environmental investments.	22.4						
C. Other expenditure measures		299.3	159.8	0.0	0.0	0.0	0.0	0.0
	Per cent of nominal GDP	*2.2%*	*1.1%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
C1. Other measures	Numerous measures to improve the budget position.	299.3	159.8					

II. Total revenue enhancement measures		417.3	578.3	484.4	523.6	561.6	571.0	526.4
	Per cent of nominal GDP	*3.0%*	*4.0%*	*3.0%*	*3.1%*	*3.1%*	*3.0%*	*2.6%*
A. Personal income taxes	Abolishing additional basic allowance for the first child.		46.1	45.3	45.3	45.3	45.3	45.3
	Reducing income tax rate to 20%.							-72.0
	Excluding labour union fees and study loan interest from income deductions.			3.0	3.0	3.0	3.0	3.0
	Creation of the investment account.				-4.2	-4.7	-5.2	-5.7
	Lowering the maximum income tax deduction limit from EUR 3 196 to EUR 1 920.					5.0	5.0	5.0
	Excluding educational costs from the list of fringe benefits.				-2.1	-2.1	-2.1	-2.1
B. Value-added tax	Increasing the VAT rate from 18% to 20%.	51.1	111.8	119.9	128.4	136.8	145.0	154.8
	Increasing the lowered VAT rate from 5% to 9%, etc.	21.1	21.9	23.5	25.1	26.8	28.4	30.3
D. Social security contributions	Raising the unemployment insurance payment up to 4.2%.	50.2	122.7	124.7	133.7	142.4	150.4	161.2
	Increasing the social tax obligatory minimum to 100% of the minimum wage.	21.0	23.0	23.0	23.0	24.0	25.0	27.0
	Introducing a ceiling (salary over EUR 4 000 per month) on the pension insurance part of the social tax.						-15.0	-20.0
E. Excise duties	Increasing excise duties on alcohol, tobacco, fuel, gas and electricity in 2009.	33.2	35.5	35.5	35.6	36.2	38.5	40.9
	Increasing excise duties on alcohol, tobacco, fuel and electricity in 2010.		68.4	65.1	85.0	87.9	89.3	95.0
	Increasing excise duties on alcohol, tobacco and shale in 2011 and later.			10.5	28.6	37.9	39.2	39.2
F. Non tax revenues	Additional dividends from state-owned enterprises.	108.6	82.0	32.0				
	Sale of real estate and land.	75.9	64.9					
G. Other	Other temporary measures.	56.1						
	Raise all lotteries tax rates to 18%.		2.0	2.0	2.1	2.2	2.2	2.4
	Abolish lower fuel excise scheme for certain sectors.				20.0	21.0	22.0	22.0

Notes: The percentage of nominal GDP is calculated by the OECD, based on the government's GDP forecasts.

Source: "OECD Fiscal Consolidation Survey 2012".

Pension

During the fiscal crisis, Estonia increased the retirement age to strengthen long-run sustainability. Thereafter, the Ministry of Finance commissioned a sustainability analysis of the social security system as a basis for planning changes.

4. Institutional reforms

The government has introduced changes to its fiscal institutional framework leading to top-down budgeting, as the Ministry of Finance and the Prime Minister's Office negotiate goals and indicators with ministries. The government has also established simpler and more flexible budget execution rules for ministries.

In addition, the government has introduced several changes in the budget process:

- In the second quarter of 2012, the Ministry of Finance plans to return to the practice – abandoned during the crisis years – of fixing a medium-term fiscal framework (cost ceilings for the next four years) in spring 2012 (in State Budget Strategy).
- The government is preparing to move towards performance/programme-based budgeting.

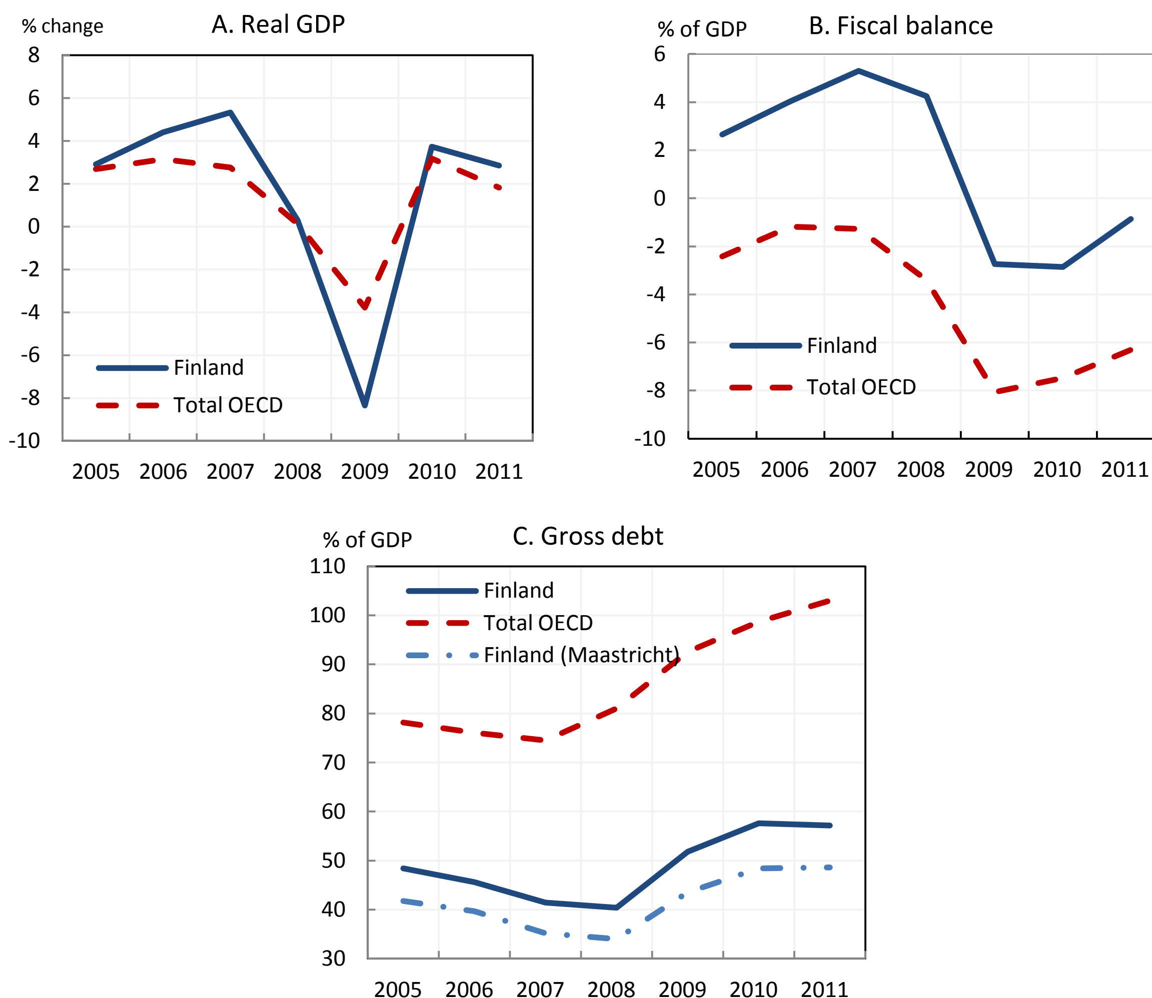
The Ministry of Finance is preparing a concept paper for the further improvement of the fiscal framework (fiscal rules, balance requirements, debt, reserves and cash flow, expenditure rules, general government sector co-ordination, monitoring and evaluation). The planned changes are related (but not exclusively) to the EU initiatives to strengthen fiscal rules. Major decisions are scheduled for the second quarter of 2012, and legislation will be enacted at the end of 2012.

FINLAND

1. Economic situation

Finland enjoyed a strong recovery through 2010 and mid-2011 but lost momentum in the third quarter of 2011. Even with the improvement, the Finnish economy has still not recovered from the sharp 2008-09 recession, and GDP remains about 3% below its mid-2008 level. Like most other small open economies, Finnish exports continued to deteriorate following the global economic slowdown, and consumer confidence eroded and domestic real income fell which led to a slowdown in private consumption and residential investment. Notwithstanding, domestic demand currently provides more support to growth than exports (Figure 1A). The general government balance still shows a significantly better performance than the OECD average, but remains on the deficit side (Figure 1B). Gross debt has continued on its path upwards since 2008 even though the growth rate is flattening (Figure 1C). The OECD projects a recovery during 2013 as the global outlook brightens, uncertainty falls and income growth resumes.

Figure 1. Key economic indicators



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

Source: OECD (2012), OECD Economic Outlook, Vol. 2012/1, OECD Publishing.

2. The government's fiscal consolidation plan

A fiscal consolidation plan was included in the government programme of Jyrki Katainen (22 June 2011) and is currently being implemented. The government's target is to achieve a substantial reduction in the central government debt-to-GDP ratio and a balance in central government finances. The general government fiscal balance is projected to linger between 1.3% and 1.5% of GDP for the period 2012-15, somewhat higher than the balance reported by the previous government in "Restoring Public Finances" (OECD, 2011). The general government gross debt (Maastricht basis) is estimated to stabilise at 55% of GDP by 2014 (Figure 2A and 2B).

The overall net positive effect on the central government balance due to the present government's consolidation measures amounts to EUR 2.3 billion by 2015. In addition, the previous government made some tax decisions affecting 2010–15. Compared to the consolidation that the previous government reported in "Restoring Public Finances" (OECD, 2011), the new consolidation plan extends the consolidation effort to 2015, but decreases the total cumulative volume as a percentage of GDP (Figure 2C). The broad outline of the composition of measures decided by the present government is a 50/50 division on the revenue and expenditure side, departing from a larger focus on expenditure measures by the previous government and focusing more on revenue enhancement measures towards the end of the period (Figure 2D).

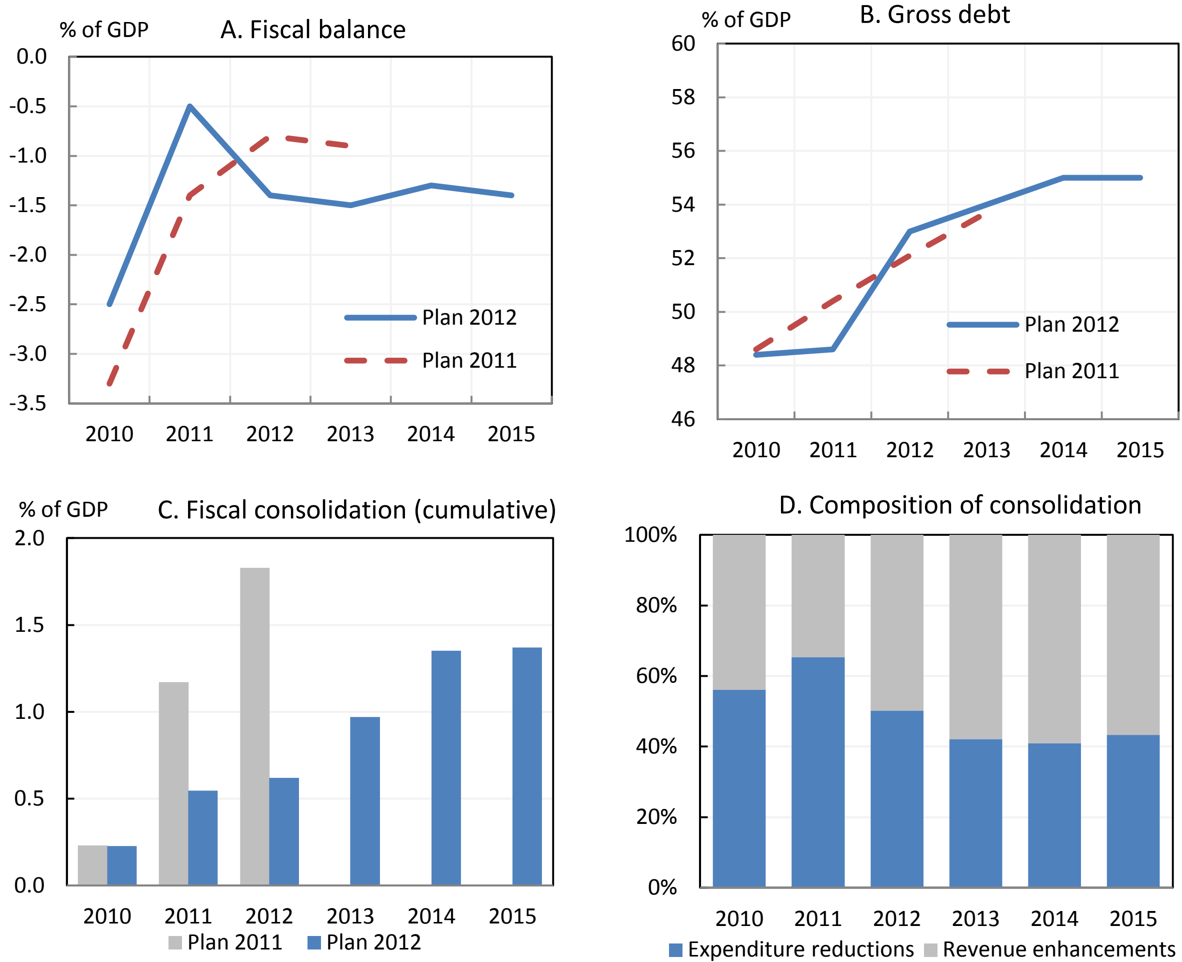
The government reports that it is committed to undertake further adjustment measures if there are indications that the central government debt-to-GDP ratio is not shrinking and if the central government deficit shows signs of settling at over 1% of GDP. However, the government should consider this policy in relation to pro-cyclical effects. On the other hand, if economic growth is faster than anticipated, the government will primarily use the increased revenue and decreased expenditure to reduce central government debt. If there is a clear reduction in the central government debt-to-GDP ratio before 2015, no more than 30% of the improved fiscal position can be assigned to additional expenditure in line with the government's strategic objectives. Central government revenue from the auctioning of emissions rights can be allocated to one-off expenditure related to climate change and development co-operation, spending limits notwithstanding.

Finnish public finances show a substantial sustainability gap due to the ageing of the population. In addition to the consolidation plan, the government aims to consider structural reforms as well as the co-ordination of economic policy and collective settlement in order to address this challenge.

The role of the local governments in the overall consolidation plan is still limited, as the local governments have a very high degree of autonomy and the consolidation strategy primarily concerns the central government. However, the spending cuts laid out in the government programme include a substantial cut in state grants to local governments, leading to moderate expenditure cuts on general public services. Most of the policy areas will be affected by moderate or minor cuts. The area of environmental protection is the only policy area with significant expenditure cuts (Figure 2E).

According to the government, growth will be promoted by targeted increases in specific appropriations, including youth education and employment, preventing long-term unemployment, combating the shadow economy, promoting green growth, and reinforcing the risk-taking capacity of Finnvera which plays a key role in funding newly established and growing businesses.

Figure 2. The government's planned fiscal consolidation



E. Sectors affected by fiscal consolidation

No expenditure cuts	Housing and community amenities
Minor expenditure cuts	Health
	Public order and safety
	Social protection
Moderate expenditure cuts	Defence
	Economic affairs
	Education
	General public services (due to cuts in central government transfers to local governments)
	Recreation, culture and religion
Significant expenditure cuts	Environmental protection

Notes: Fiscal balance and gross debt are based on general government data (Maastricht basis) as a per cent of nominal GDP projected by the government. Fiscal consolidation is the cumulative consolidation volume in central government as a per cent of nominal GDP projected by the government. The composition of consolidation is expenditure reductions and revenue enhancements in the actual year (cumulative, total 100%).

Sources: "OECD Fiscal Consolidation Survey 2012" and OECD (2011), OECD Economic Outlook, Vol. 2011/2, OECD Publishing.

Table 1. The government's fiscal consolidation plan

	2010	2011	2012	2013	2014	2015
Fiscal consolidation volume and path, % of nominal GDP						
Total fiscal consolidation volume	0.2%	0.5%	0.6%	1.0%	1.4%	1.4%
Fiscal deficit (-)/ surplus (+)	-2.5%	-0.5%	-1.4%	-1.5%	-1.3%	-1.4%
Gross debt	48.4%	48.6%	53.0%	54.0%	55.0%	55.0%
GDP growth rate in per cent, year on year						
Nominal GDP growth forecasts	4.0%	5.6%	3.0%	3.7%	4.0%	4.1%
Fiscal consolidation by expenditure reductions and revenue enhancements (total = 100%)						
Expenditure reductions	56%	65%	50%	42%	41%	43%
Revenue enhancements	44%	35%	50%	58%	59%	57%
Fiscal consolidation, billion euro						
Expenditure reductions	0.2	0.7	0.6	0.8	1.2	1.3
Revenue enhancements	0.2	0.4	0.6	1.1	1.7	1.7
Total consolidation	0.4	1.0	1.2	2.0	2.9	3.0

Notes: Fiscal balance and gross debt are based on general government data (Maastricht basis) as a per cent of nominal GDP. Nominal GDP growth forecasts are calculated by the OECD on the basis of government estimates of nominal GDP. Fiscal consolidation in national currency is calculated by the OECD based on government estimates of consolidation volume in per cent of GDP.

Sources: "OECD Fiscal Consolidation Survey 2012" and OECD calculations.

3. Major consolidation measures

The fiscal consolidation plan set out in the Katainen government programme (2011) emphasises expenditure cuts and revenue enhancement measures in approximately equal amounts. Measures on the expenditure side impose cuts throughout the government sector, with the largest impact on defence, development co-operation, public administration, ICT reform, several measures in the education and health sectors, and business subsidies. On the revenue side, the largest measures include an increase in VAT of one percentage point to 23% and increased taxes on diesel and other transport fuels.

Table 2. Major consolidation measures

Million EUR

		2010	2011	2012	2013	2014	2015
I. Expenditures		230.0	680.0	610.0	830.0	1 170.0	1 305.0
	Per cent of nominal GDP	*0.1%*	*0.4%*	*0.3%*	*0.4%*	*0.6%*	*0.6%*
A. Operational measures		230.0	180.0	120.0	140.0	160.0	165.0
	Per cent of nominal GDP	*0.1%*	*0.1%*	*0.1%*	*0.1%*	*0.1%*	*0.1%*
A1. General operational expenditures (including staff expenditure)	Operational expenditure cuts decided in the "Government Programme and Spending Limits Decision 2012-2015".			80.0	100.0	120.0	125.0
A2. Measures to keep expenditures within the spending ceiling	Budget 2010, of which some operational expenditure cuts are included.	230.0					
	Budget 2011, of which some operational expenditure cuts are included (some operational cuts from the 2010 and 2011 budgets are permanent).		180.0	40.0	40.0	40.0	40.0
B. Programme measures			500.0	490.0	690.0	1 010.0	1 140.0
	Per cent of nominal GDP		*0.3%*	*0.2%*	*0.3%*	*0.5%*	*0.5%*
B1. Stimulus measures	Removal of temporary and one-off stimulus measures (projects, acquisitions, etc.) implemented during the financial crisis.		500.0				
B2. "Government Programme and Spending Limits"	Expenditure cuts decided in the "Government Programme and Spending Limits Decision 2012-2015".			980.0	1 450.0	1 790.0	2 020.0
	Expenditure increase decided in the "Government Programme and Spending Limits Decision 2012-2015".			-490.0	-760.0	-780.0	-880.0

II. Total revenue enhancement measures		180.0	360.0	605.0	1 140.0	1 690.0	1 710.0
	Per cent of nominal GDP	*0.1%*	*0.2%*	*0.3%*	*0.6%*	*0.8%*	*0.8%*
A. Personal income and capital taxes	Decrease in income taxation.		-300.0	-300.0	-300.0	-300.0	-300.0
	Changes in income and capital taxation (excluding inflation adjustment to tax criteria).				170.0	180.0	180.0
B. Value-added tax	Rates increase one percentage point to 23% in July 2010.	220.0	690.0	690.0	690.0	690.0	690.0
	Lowered VAT for restaurant meals, July 2010.	-90.0	-260.0	-260.0	-260.0	-260.0	-260.0
	Increased VAT for newspaper and magazine subscriptions (9%).			50.0	90.0	90.0	90.0
C. Consumption taxes	Tax on sweets, ice cream and soft drinks (raised in two phases).		80.0	150.0	150.0	150.0	150.0
	Levies on alcohol and tobacco.			150.0	170.0	170.0	170.0
	Car tax.			90.0	90.0	90.0	90.0
	Lottery tax criteria change.			35.0	35.0	35.0	35.0
D. Energy taxes	Increased tax on peat.				20.0	20.0	20.0
	Increase in energy tax in 2011, annual EUR 700 million (due to compensate the abolition of employers' social security contribution).						
E. Waste tax	Increase in waste tax.		40.0	40.0	60.0	60.0	60.0
F. Tax on transport fuel	Increased taxes on diesel and other transport fuels.			320.0	330.0	440.0	450.0
G. Vehicle tax	Lower tax for diesel vehicles.		-40.0	-80.0	-80.0	-80.0	-80.0
	Increased vehicle tax.			70.0	140.0	140.0	140.0
H. Other	Lowered corporate income tax rate (24.5%), including other changes.			-580.0	-590.0	-330.0	-320.0
	Introduction of bank tax.				170.0	170.0	170.0
	Introduction of windfall tax.					170.0	170.0
	Other (net change).	50.0	150.0	230.0	255.0	255.0	255.0

Notes: The percentage of nominal GDP is calculated by the OECD, based on the government's GDP forecasts.

Source: "OECD Fiscal Consolidation Survey 2012".

4. Institutional reforms

The Katainen government has introduced essential changes in several areas of its fiscal institutional framework:

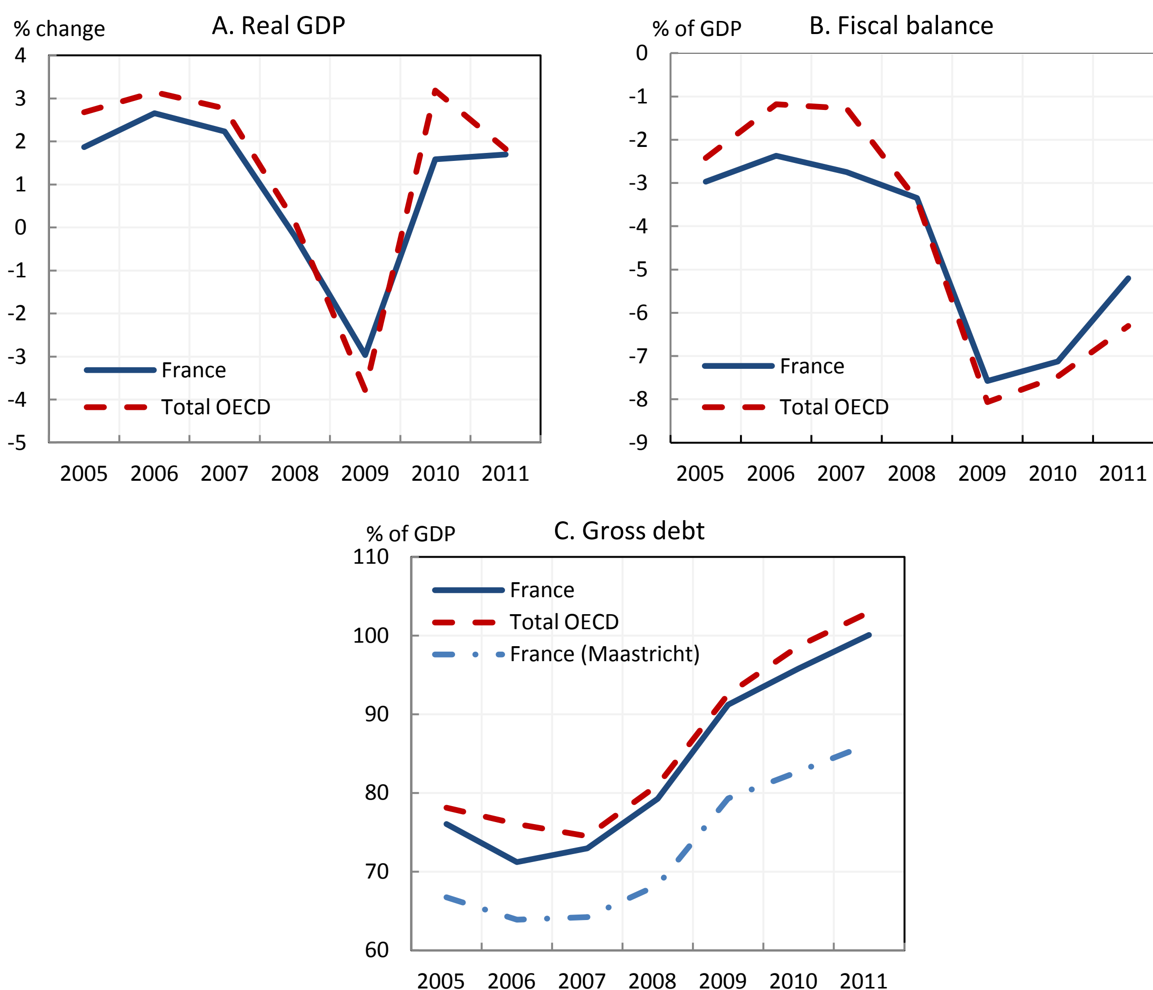
Fiscal rules	The government's spending rule will correspond, with certain changes, to the rule which has been in use since 2004 and which has proved to be effective. The coverage of the spending rule has been increased to include the central government contribution to the Social Insurance Institution for expenditure arising from the National Pensions Act.
Expenditure ceilings or forecasts	The government observes that central government expenditure as specified in the spending limits is EUR 1 215.5 million less in 2015 than the figure recorded in the technical spending limits on 23 March 2011 (EUR 40 699 billion). In addition to structural adjustments, the level of overall spending limits will be revised to reflect changes in price levels. EUR 200 million will be earmarked annually for supplementary budget needs. If annual expenditure falls below the spending limits even after supplementary budgets, the difference, up to a maximum of EUR 200 million, can be spent the following year on one-off expenditure items.

FRANCE

1. Economic situation

The French economy experienced a relatively slower recovery in 2010 compared to the OECD average, after a shallow recession in 2009. The growth continued roughly in line with potential in 2011, avoiding the contraction other OECD countries experienced (Figure 1A). After peaking at 7.6% in 2009, the fiscal deficit reached 7.1% of GDP in 2010 and 5.2% in 2011, better off than most OECD countries (Figure 1B). Gross debt has risen in line with the OECD average, from the time of the fiscal crisis in 2007 up to 2009, but the debt increase in the past two years was below most other OECD countries. In 2011, gross debt (national accounts definition) is estimated at 100.1% of GDP (86.2% Maastricht basis) (Figure 1C). The OECD expects real GDP to grow by just 0.6% in 2012 before doubling to about 1.2% in 2013.

Figure 1. Key economic indicators



Notes: Fiscal balance is general government financial balance and gross debt is general government gross financial liabilities as a per cent of nominal GDP. Gross debt is presented according to both the national accounts definition and Maastricht criteria.

Source: OECD (2012), OECD Economic Outlook, Vol. 2011/1, OECD Publishing.

2. The government's fiscal consolidation plan

The French government has stated its objective of reducing the deficit to 3% of GDP by 2013, and by an additional 1% of GDP for each of the next three years, leading to fiscal balance in 2016 (Figure 2A). The global fiscal consolidation plan presented by the government in November 2011 covers the 2011-16 period. The plan takes into account the two sets of consolidation measures adopted in 2011 (in August and November). The plan sets stricter objectives for revenues and expenditures than in the multi-annual planning law of December 2010; it introduced revenue enhancement measures for a total amount of EUR 18 billion in 2012 and EUR 26 billion by 2016, and also increased the effort regarding expenditures for a total amount of EUR 2.8 billion in 2012 and EUR 10 billion by 2016.

The implementation so far has led to a better impact on the fiscal balance in 2011 than planned. The deficit target of 6% for 2011, adopted in December 2010, was projected at 5.7% in the consolidation plan of November 2011, taking into account 2010 results that outperformed the plan. Despite a worsening of the global economy in the second half of 2011, which resulted in a lower growth rate than anticipated in France, the deficit was actually cut to 5.2% of GDP.

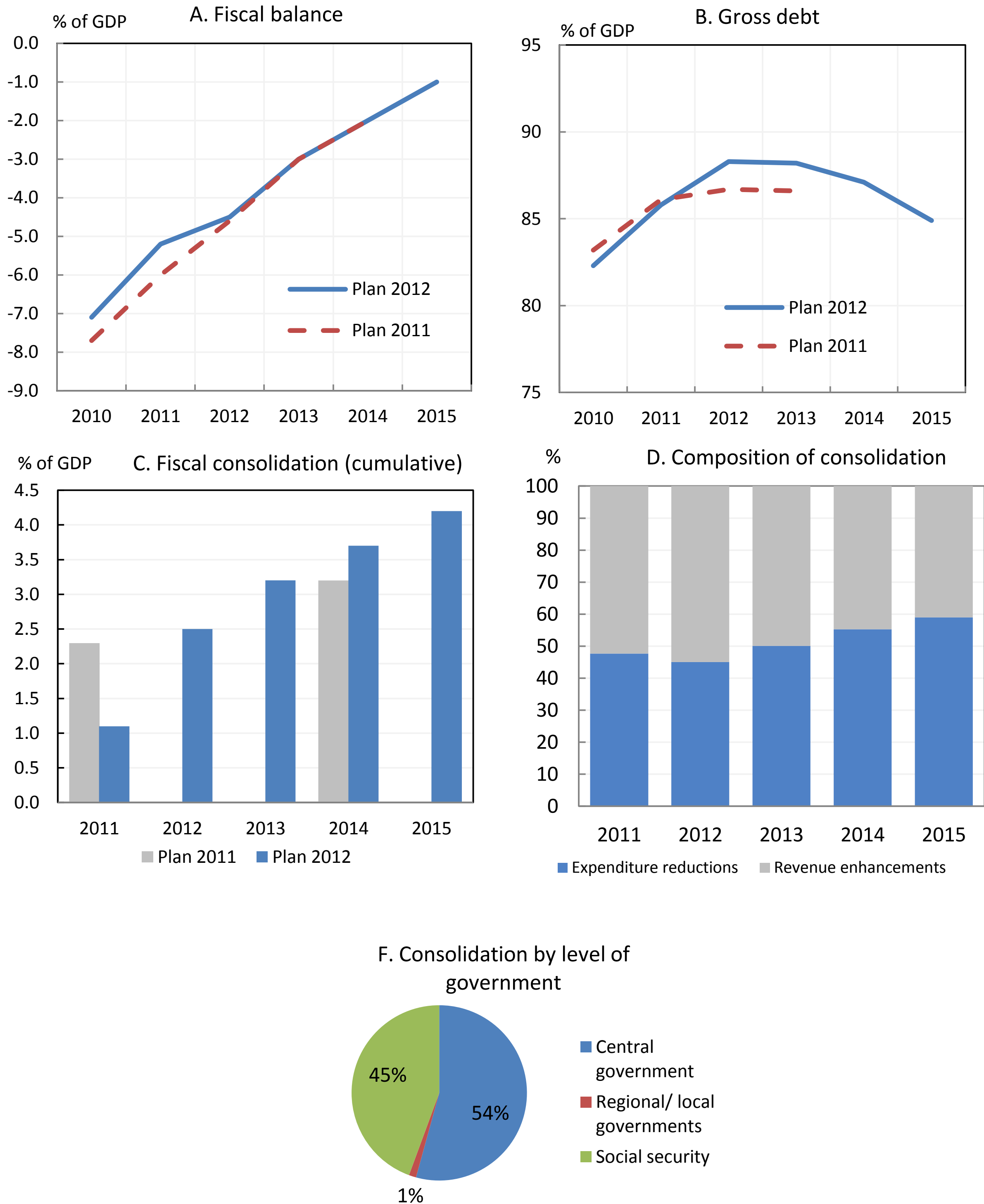
The government expects general government gross debt (Maastricht basis) to peak at 88.3% of GDP by 2012 (up from 86.7% in the previous plan) and then gradually slide to 84.9% in 2015 (Figure 2B).However, these figures may be outdated due to co-financing of the European Stability Mechanism/ The European Financial Stability Facility related to the assistance programmes in Greece, Portugal and Ireland.

The global fiscal consolidation plan of 2011 envisages a consolidation of 4.2% of GDP by 2015, up from 3.2% in the 2010 plan. The newer plan presents a relatively front-loaded consolidation package, with the largest incremental effort, in 2012, of 1.5% of GDP. Compared to the plan described in "Restoring Public Finances" (OECD, 2011), the government has allowed more time to implement the measures (Figure 2C). The composition of consolidation measures focuses on revenues at the start, with an increasing focus on expenditures by 2014 (Figure 2D). About 45% of the consolidation measures relate to social security (Figure 2F).

The government is relying on nominal GDP growth of 2.8% in 2012, and 3.8% in the following years, to deliver an increase in tax revenues and thereby support a reduction in the deficit. The plan rests on an annual growth rate of real public expenditures of 0.8% in 2012 and 0.4% every year from 2013 to 2016.

The government has declared its intention to shield growth by targeting measures to minimise negative impact on growth. Expenditure measures emphasise rationalising public expenditure, while on the revenue side measures target the reduction of loopholes in the tax system and the social security system. In addition, some fiscal consolidation measures are expected to have a positive impact on long-term potential growth, like the pension reform which mainly consists of a progressive rise of retirement thresholds. The government is also seeking to stimulate the economy's growth potential by ring-fencing the research budget in the general government triennial budget and by investing in long-term projects. A programme called "investments for the future" was launched by the government in 2010. This programme of EUR 35 billion finances projects with expected high returns on investment in four main areas: education and professional training, research, the environment, and industry development.

Figure 2. The government's planned fiscal consolidation



Notes: Fiscal balance is general government financial balance and gross debt is gross financial liabilities (Maastricht basis) as a per cent of nominal GDP projected by the government. Fiscal consolidation is the cumulative consolidation volume as a per cent of nominal GDP projected by the government. The composition of consolidation is expenditure reductions and revenue enhancements in the actual year (cumulative, total 100%). The consolidation by level of government is the fiscal consolidation volume at an annual average by levels of government. Data concerning "Plan 2012" include implemented consolidation efforts in 2010 and 2011. Source: "OECD Fiscal Consolidation Survey 2012" and "Restoring Public Finances" (OECD, 2011).

Table 1. The government's fiscal consolidation plan

	2011	2012	2013	2014	2015
Fiscal consolidation volume and path, % of nominal GDP					
Total fiscal consolidation volume	*1.1%*	*2.5%*	*3.2%*	*3.7%*	*4.2%*
Fiscal balance, deficit (-)/ surplus (+)	-5.2%	-4.5%	-3.0%	-2.0%	-1.0%
Gross debt	85.8%	88.3%	88.2%	87.1%	84.9%
GDP growth rate in per cent, year on year					
Nominal GDP growth forecasts	3.4%	2.8%	3.8%	3.8%	3.8%
Fiscal consolidation through expenditure reductions and/or revenue enhancements (total = 100%)					
Expenditure reductions	47.7%	45.0%	50.1%	55.3%	59.0%
Revenue enhancements	52.3%	55.0%	49.9%	44.7%	41.0%
Fiscal consolidation, billion EUR					
Expenditure reductions	11.2	23.9	35.0	46.0	59.0
Revenue enhancements	12.3	29.2	34.9	37.2	40.3
Total consolidation	23.5	53.1	69.9	83.2	98.3

Note: Nominal GDP growth forecasts are government estimates.

Source: "OECD Fiscal Consolidation Survey 2012" and OECD calculations.

3. Major consolidation measures

Before the announcement of the global fiscal consolidation plan, a range of measures had already been implemented, leading to significant savings. The non-replacement of one out of two retiring civil servants will, according to the government, lead to EUR 4.6 billion savings between 2009 and 2013 (cuts of 150 000 jobs). However, the Court of Audit estimates that a large part of these gains are redistributed into the system.

Table 2 displays the specific measures adopted in France. The expenditure measures that contribute the most to fiscal consolidation relate to social security funds, including health care and housing and family social benefits. In addition, there are substantial contributions from savings on operating expenditures in central government and on central government transfers to local authorities. On the revenue side, the largest contributions to fiscal consolidation arise from the 2011 amendments to taxes on personal income, profits and capital gains, and from amendments to social security contributions, payroll taxes and non-tax compulsory payments.

Two new reforms are under way and will help achieve the objectives set in the medium-term fiscal framework:

- The office and building space occupied by the central government has to decrease by 5% over the next three years. Every year, EUR 500 million of state properties will be sold.
- In February 2012, the government submitted a new budget law to Parliament; this new law reduces social security contributions, financed by an increase in the VAT from 19.6% to 21.2%. This measure will increase economic growth to the extent that it improves labour market outcomes and France's competitiveness, but is not a consolidation measure as such. The law was expected to be implemented in the second half of 2012, provided the new government elected in May gives its support.

Table 2. Major consolidation measures

Billion EUR (% of nominal GDP)

		2011	2012	2013	2014	2015
I. Expenditures		**11.2**	**23.9**	**35.0**	**46.0**	**59.0**
	Per cent of nominal GDP	*0.6%*	*1.2%*	*1.6%*	*2.1%*	*2.6%*
A. Operational measures		**6.90**	**12.30**	**17.70**	**24.00**	**30.00**
	Per cent of nominal GDP	*0.3%*	*0.6%*	*0.8%*	*1.1%*	*1.3%*
A1. Payroll savings	Freeze of general increases of civil servant salaries (state administration, local authorities, and hospital civil service).	1.30	2.90	4.60	6.00	8.00
A2. Other	Savings on operating expenditure in central government and financial aid to local authorities. This includes 10% cut on operating expenditures other than staff compensation for all governments.	5.60	9.40	13.10	18.00	22.00
B. Programme measures		**4.30**	**11.60**	**17.20**	**22.00**	**29.00**
	Per cent of nominal GDP	*0.2%*	*0.6%*	*0.8%*	*1.0%*	*1.3%*
B1. Social security funds	Including health care and housing and family social benefits.	2.60	6.20	9.40	13.00	16.00
B2. Pension reform		1.50	4.80	6.90	8.00	11.00
B3. Transfers to local authorities		0.20	0.60	0.90	1.00	2.00
II. Total revenue enhancement measures		**12.3**	**29.2**	**34.9**	**37.2**	**40.3**
	Per cent of nominal GDP	*0.6%*	*1.4%*	*1.6%*	*1.7%*	*1.8%*
A. Taxes on personal income, profits and capital gains		3.2	8.5	11.4	12.2	12.6
Of which…	Suppression of the tax credit on dividends.	0.6	0.6	0.6	0.6	0.6
	Social contributions on life insurance are eligible on an annual basis and no longer at the end of the contract.	1.6	1.4	1.2	1.0	0.8
Of which…	Reduction of some green tax credits (photovoltaic).	0.2	0.8	1.0	1.0	1.0
Of which…	Suppression of the multiple declarations rule from 2011 (households have no longer permission to divide income on two fiscal years subject to significant change in the marital situation).		0.5	0.5	0.5	0.5
Of which…	1% increase of the top marginal statutory income tax rate; 1% increase of the reduced tax rate on savings and capital gains.	0.4	0.5	0.5	0.5	0.5
Of which…	1.2% increase of the social security contributions on capital gains.	0.2	1.3	1.3	1.3	1.3
Of which…	Freezing of the personal income tax scale in 2012 and 2013 (maintenance of the 2011 tax scale in nominal terms).	0.0	1.7	3.4	3.4	3.4

		2011	2012	2013	2014	2015
Of which…	Reduction of tax loopholes.	0.0	0.0	1.0	1.3	1.9
B. Social security contributions, payroll taxes and non-tax compulsory payments		4.4	7.4	7.7	7.9	7.6
Of which…	Employer social contributions tax reduction (*allègements bas salaires*).	1.8	2.0	2.0	2.0	2.0
Of which…	Reduction of some specific employer social contributions exemptions.	0.8	1.0	1.0	1.0	1.0
Of which…	Increase in the civil servant social contributions tax rate.	0.3	0.6	0.9	1.1	1.3
Of which…	Integration of extra hours in the calculation method of the employers' social contributions tax reduction.		0.6	0.6	0.6	0.6
Of which…	Reduction of the tax allowance on professional costs (*abattement forfaitaire pour frais professionnels*) (from 3% to 1,75%).		0.8	0.8	0.8	0.8
C. Taxation of corporate income, profits and capital gains		2.7	4.7	3.7	1.5	1.2
Of which…	Stability tax on financial companies.	0.5	0.6	0.8	0.8	0.8
Of which…	Limitation of loss carry-forward and carry-back.	0.5	1.5	1.0	0.5	0.0
D. Taxes on goods and services		2.4	6.4	6.4	6.4	6.4
Of which…	Extension of the special tax on insurance contracts to other insurance contracts.	1.1	1.1	1.1	1.1	1.1
Of which…	Suppression of the reduced rate of VAT for “triple play” offers.	1.1	1.1	1.1	1.1	1.1
Of which…	Increase in the tobacco prices.	0.1	0.6	0.6	0.6	0.6
Of which…	Suppression of the special tax on insurance contracts exemption on solidarity insurance contracts.	0.1	1.1	1.1	1.1	1.1
Of which…	Increase of the VAT rate from 5.5% to 7% (with the exception of food, energy, and products or services provided to disabled people).	0.0	1.8	1.8	1.8	1.8
E. Property taxes		-0.4	2.2	2.7	3.2	3.5
Of which…	Reform of the home-ownership programme.	0.0	0.3	0.8	1.0	1.3
Of which…	Suppression of “tax shield” (ceiling on the amount of tax paid, relative to the total revenue).	-0.2	0.5	0.4	0.7	0.7
Of which…	Reform of gift tax.	0.1	0.6	0.6	0.6	0.6
Of which…	Modification of the exceptional reduction of tax allowance on real estate gains.	0.0	1.9	2.0	2.0	2.0
F. Discretionary tax measures announced in the multi-annual fiscal law adopted in December 2010		0.0	0.0	3.0	6.0	9.0

Note: The percentage of nominal GDP is calculated by the OECD, based on the government’s GDP forecasts.

Source: “OECD Fiscal Consolidation Survey 2012”.

Pension

On 7 November 2011, the government decided to bring forward the transitional phase of the pension reform by one year, thereby rescheduling the target age of 62 years for 2017 instead of 2018. In view of the current sovereign debt crisis, this measure will reduce the pension scheme deficit more quickly and speed up the shielding of pensions from financial market tensions.

4. Institutional reforms

The government has introduced essential changes in several areas of its fiscal institutional framework:

<table>
<tr><td>Long-term projections</td><td>The newly-formed “Pensions Steering Committee” (Comité de pilotage des régimes de retraite) will act as a forum for governance of the pension system and to provide early warnings. This body will issue an opinion each year on the financial position of the pension schemes and will propose corrective measures for schemes that are seriously at risk. In addition, it will conduct a national review of the goals and characteristics of a systemic reform of the collective funding of risks associated with ageing, with particular focus on the conditions for introducing a points-based or national accounts-based system.

Every three years, the EU “Ageing Working Group” publishes long-term projections of age-related expenditures, harmonised at the European level, in order to assess the sustainability of public finance.</td></tr>
<tr><td>Economic forecasts</td><td>French official growth forecasts are now made in closer co-operation with its German counterparts, with exchanges of views at a high level regarding the international environment.</td></tr>
<tr><td>Fiscal rules</td><td>The second multi-annual planning law, covering the 2011-14 period, and the three-year budget for the central government have introduced new fiscal rules:
- freeze in nominal terms of central government expenditure excluding civil servant pensions and debt service (on the perimeter including civil servant pensions and debt service, the freeze in real terms still applies);
- annual floor of new revenue measures;
- freeze of the global amount of tax expenditures in nominal terms;
- introduction of a new rule for central government operations, namely that loans with a term of more than one year can no longer be contracted;
- the obligation of using all surpluses to reduce the public deficit, which already existed for the central government in the first multi-annual planning law, has been extended to social security funds.

All the objectives – especially the deficit targets – set in the multi-annual planning law and in the new consolidation plan are considered binding by the government, which makes an annual report (each June) to Parliament on the achievement of the objectives.

The second multi-annual planning law has also set new ceilings for the different subsectors of the public administration (see “expenditure ceilings” below).</td></tr>
</table>

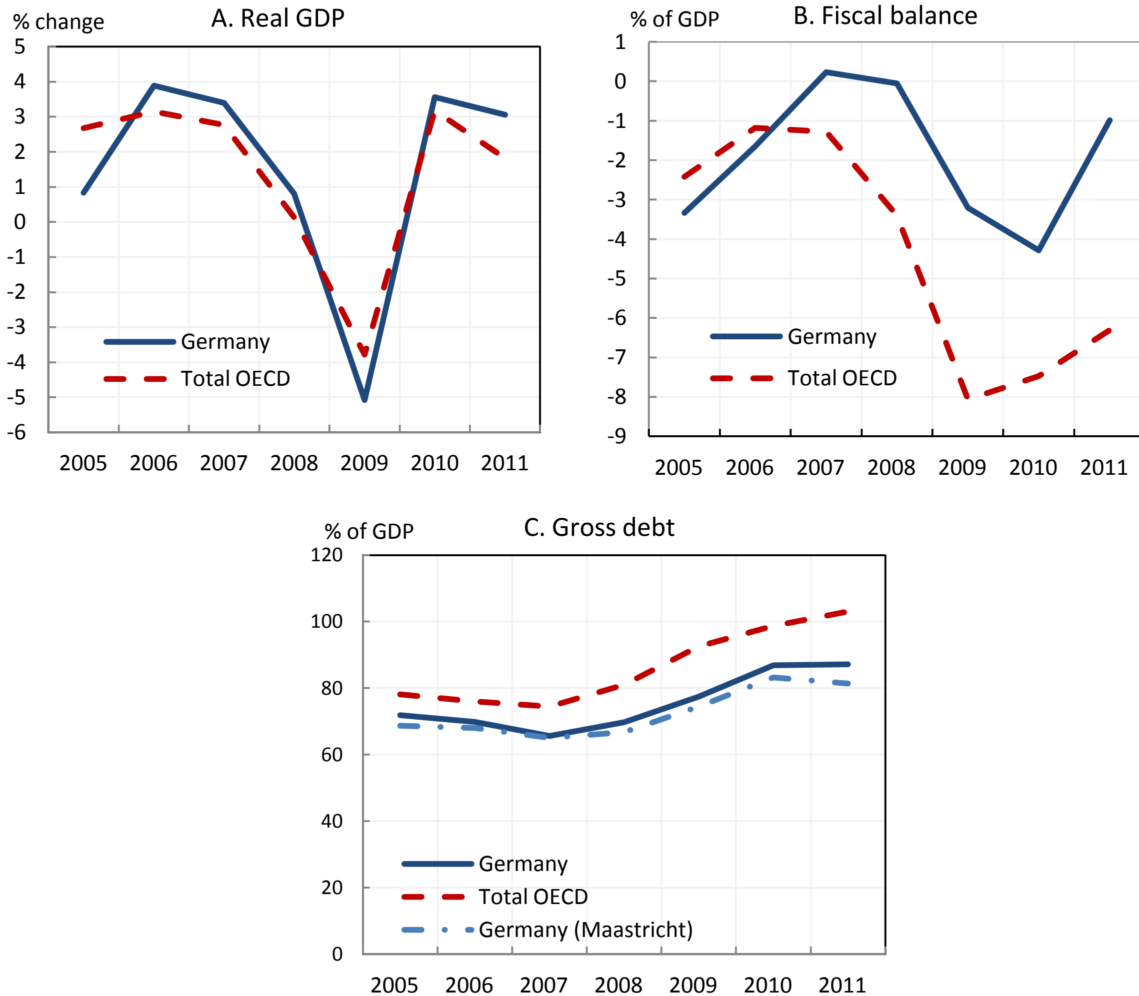
Medium-term expenditure frameworks	The second multi-annual planning law, covering the 2011-14 period, was adopted in December 2010.
Expenditure ceilings or forecasts	As in the case of the first multi-annual planning law, the multi-annual planning law for 2011-14 continues to fix ceilings for the expenditures of the central government and of social security. But the second law goes further: - The total amount of the ceilings for each “mission” of the budget of the central government now has to respect two different fiscal norms (the most demanding of the two rules apply): freeze in real terms for the whole budget and freeze in nominal terms on the perimeter excluding civil servant pensions and debt service. - Grants to local authorities have been frozen in nominal terms for the whole period (these grants are part of the expenditures frozen in nominal terms). - A global annual ceiling has been introduced for the social security funds. - The multi-annual planning law has set annual ceilings for the first time in nominal terms for health-care expenses. These ceilings correspond to an annual increase limited at 2.8% of the national health-care expenditures target. The new consolidation plan has reduced the limit to 2.5% each year from 2012 to 2016.
Legal basis of the framework	The 2008 constitutional reform created the multi-annual planning laws. Two such laws have been adopted since (in 2009 and 2010). A new constitutional reform was adopted by both chambers of Parliament in July 2011. This reform aimed at giving a binding character to a new category of law, the “framework laws”, which would be very close to the current multi-annual planning laws. This constitutional reform still needs to obtain a positive vote from two-thirds of Parliament (gathering of the two chambers).

GERMANY

1. Economic situation

The German economy recovered from the 2008-09 crises stronger than most other OECD countries. Notwithstanding a worldwide loss of confidence and lower world trade growth, Germany's economy grew by 3.1% in 2011 (Figure 1A). Germany's budget deficit peaked at 4.3% of GDP in 2010 because of stimulus measures implemented since 2009 but also due to the inclusion of the costs of the Hypo Real Estate Bad bank scheme in the deficit (one-off expenditure). The deficit contracted to 1% of GDP in 2011 mainly due to the favourable cyclical situation and improvements in the structural balance (Figure 1B). Gross debt continuously increased between 2007 and 2011 peaking at 87.2% of GDP (81.4% Maastricht criterion) (Figure 1C). The OECD expects that economic activity in Germany will recover gradually from a soft patch in 2012 as uncertainty declines, trade picks up and domestic demand strengthens.

Figure 1. Key economic indicators



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

Source: OECD (2012), OECD Economic Outlook, Vol. 2012/1, OECD Publishing.

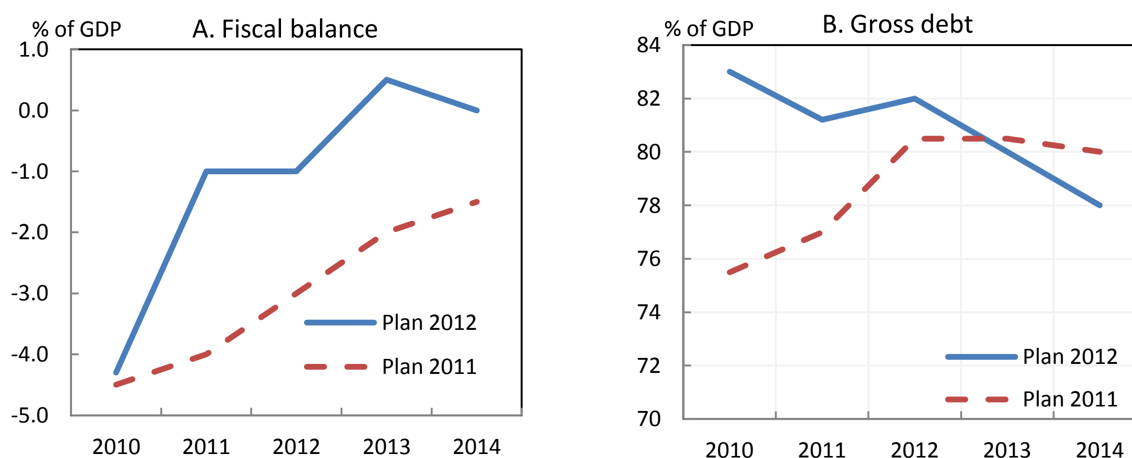
2. The government's fiscal consolidation plan

Germany achieved its plan to reduce the budget deficit to below 3% of GDP in 2011. Further consolidation is needed to comply with the new fiscal rule anchored in Germany's constitution though (see Section 4 of this country note). Germany's 2012 federal budget and accompanying 2012-15 fiscal plan will thus continue to implement the eight-point plan set out in the 2011 budget, which focuses on prioritising education, creating prospects for higher growth and employment, and assuring solid public finances. Against this background, the government expects that the federal deficit (net borrowing) will fall below the limit permitted by the rule two years earlier than planned.

The government forecasts that Germany's deficit of 1% of GDP in 2011 will narrow to be close to balance from 2014 onward as the consolidation measures are implemented and the economy recovers (Figure 2A). The government expects the general government structural financial deficit to reach 0.5% of GDP in 2012 and then to gradually decrease to zero by 2014. Key structural reforms of the labour market and the social benefit system contribute to this development. Gross debt (Maastricht criterion) is projected by the government to peak at 82% of GDP in 2012 at a higher level than expected in "Restoring Public Finances" (OECD, 2011) (Figure 2B). Contributions to the European Financial Stabilisation Mechanism (EFSM) and the European Stability Mechanism (ESM) as well as the consequence of the turnaround in Germany's energy policy have placed increased burdens on the budget and the gross debt.

Following the general easing of the budget burden the federal government has decided to lower its sight in regard to budget consolidation and not to introduce new measures. The government expects that the consolidation targets will be achieved even though there will be increased budget burden for instance from fall in receipts from the nuclear fuel rod tax and delays in introducing a tax on financial transactions.

Figure 2. The government's planned fiscal consolidation



Note: Fiscal balance is general government financial balance and gross debt is general government financial liabilities (Maastricht basis) as a per cent of nominal GDP projected by the government.

Source: "OECD Fiscal Consolidation Survey 2012", "Restoring Public Finances" (OECD, 2011), and OECD Economic Outlook Volume 2011/2 (No. 90).

Table 1. The government's fiscal consolidation plan

	2010	2011	2012	2013	2014
Fiscal consolidation volume and path, % of nominal GDP					
Total fiscal consolidation volume		0.5%	2.0%	2.5%	3.0%
Fiscal balance, deficit (-)/ surplus (+)	-4.3%	-1.0%	-1.0%	0.5%	0.0%
Gross debt	83.0%	81.2%	82.0%	80.0%	78.0%
GDP growth rate in per cent, year on year					
Nominal GDP growth forecasts	4.2%	3.8%	2.2%	3.0%	3.0%

Notes: The total fiscal consolidation volume is based on "Restoring Public Finances" (OECD 2011). The actual consolidation may differ from the original estimates. Nominal GDP growth forecasts is government estimates.

Source: "Restoring Public Finances" (OECD 2011) and "German Stability Programme 2012 Update" (Federal Ministry of Finance, 2012).

3. Major consolidation measures

According to the government, the 2010 announced consolidation measures (OECD, 2011) are being implemented with some changes. However, because of positive structural developments in the German economy, the government does not find it necessary to readjust and adopt new consolidation measures.

4. Institutional reforms

The government has introduced essential changes in several areas of its fiscal institutional framework:

Fiscal rules	An amendment of the Constitution in 2009 replaced the golden rule by the debt brake – a new cyclically adjusted budget balance rule applied to federal and *Länder* governments. The debt brake took effect as from 2011 and follows the structure of the EU Stability and Growth Pact, *i.e.* it sets a ceiling for the federal structural deficit in normal times at 0.35% of GDP from 2016 onwards with a transition period starting in 2011. *Länder* budgets must be structurally balanced as of 2020. The debt brake foresees escape clauses in case of natural disasters and extraordinary emergency situations outside of government control under the condition of simultaneously adopted repayment plans. The implementation of the debt brake for the federal budget includes a (virtual) control account registering deviations from the defined level of authorised new borrowing, with overruns booked as debit and underruns recorded as credit. Debit will be limited to 1.5% of nominal GDP. The methodology for calculating the structural balances of the federal budget follows the approach of the European Commission. Implementation at state level is the sole responsibility of the *Länder*. The *Länder* are free to specify the legal basis and relevant implementation provisions, including the choices with regard to applying the debt brake to nominal or structural budget balances, the methodology for cyclical adjustment or using a control account. The consolidation efforts of five *Länder* in a particularly difficult fiscal position will be supported through assistance payments provided in equal shares by the federal government and the other *Länder*. Such assistance payments are conditional on compliance with an agreed consolidation path. Furthermore, the constitutional amendment also included the establishment of a

	Stability Council with a view to enhancing the monitoring of budgetary developments at the federal and *Länder* levels and introducing a federation-wide early warning system to prevent budgetary distress.[10] In 2010, the Stability Council replaced the former Financial Planning Council; the new council consists of the federal ministers of finance and economic affairs as well as the *Länder* ministers of finance. The Stability Council is also in charge of monitoring compliance with the agreed consolidation path of the five *Länder* receiving consolidation assistance.
Top-down budgeting	The Federal Ministry of Finance plays the central role in preparing the draft annual budget. As of 2011, the federal budget is drawn up using a top-down approach. On 16 March 2011, the federal government approved the key figures for the 2012 federal budget and the financial plan up to 2015, which served as the basis for further budgeting along departmental lines. This outline was used in the government's internal budget drafting procedure, leading finally to the adoption of the federal budget and financial plan.

[10] The early warning system is based on the following four indicators at the level of the *Länder*: structural budget balance per capita, borrowing-to-expenditure ratio, interest-tax ratio and debt level per capita. When three out of these four indicators cross the respective thresholds in one out of two time periods analysed, the system indicates a situation of imminent budgetary distress. A threshold is defined for each indicator in relation to the *Länder* average, *e.g.* the threshold for the indicator "structural budget balance per capita" in a given year is the *Länder* average of the structural budget balance per capita minus EUR 200, or the threshold for the indicator "debt level per capita" in a given year is 130% (220%) of the *Länder* average for area states (city states). While thresholds will catch effectively outliers, the system does not aim at identifying a situation in which the fiscal situation of the *Länder* in total worsens.

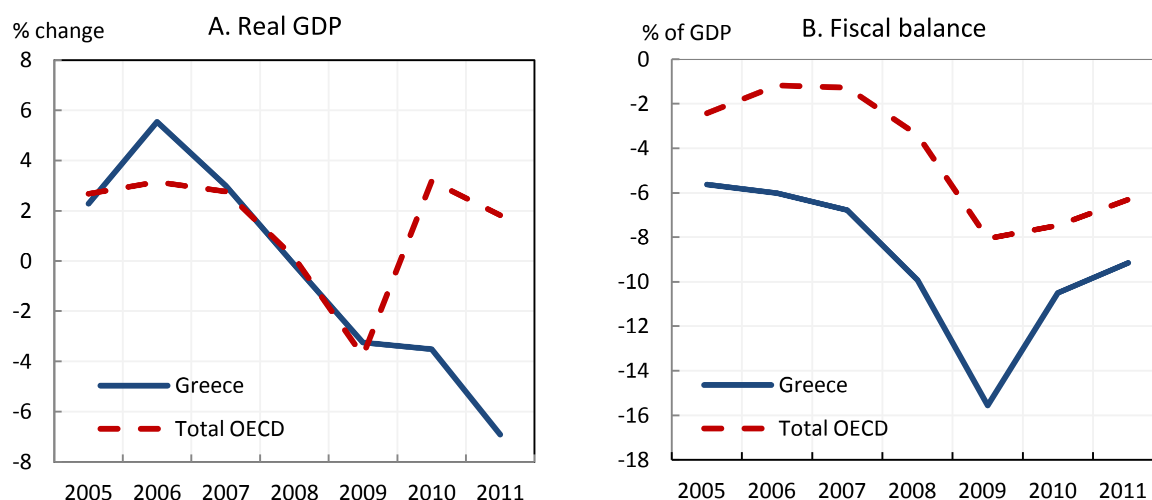
GREECE

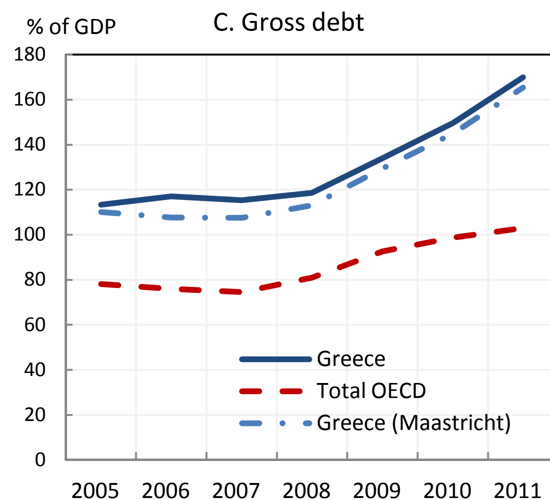
1. Economic situation

The Greek economy fell deeper into recession in 2011 while the economy contracted by 6.9% in 2011 compared to 3.5% in 2010, substantially more than previously projected (Figure 1A) reflecting the contracting effects of continued sizable, but necessary, strict fiscal consolidation. The unemployment rate has risen rapidly. The government has implemented several structural reforms in an effort to stabilise the rapid increase in government debt in line with agreements with the European Commission (EC), the European Central Bank (ECB) and the International Monetary Fund (IMF). However, progress over this last year has been slower than planned, which has also contributed to the economic development being well below expectations. Owing to the comprehensive efforts towards fiscal consolidation, the fiscal deficit shrank to 9.2% of GDP, still much higher than the deficits of other OECD countries (Figure 1B). The continuing excessive fiscal deficits add to the government gross debt that reached an unsustainable 170% of GDP (165.4 Maastricht basis) in 2011 (Figure 1C).

The OECD expects that the economy will continue to contract in 2012 and into 2013, mostly under the weight of fiscal retrenchment. It would then return to growth in the second half of 2013 as competitiveness-enhancing structural reforms take hold, helping investment and exports to rebound, and the pace of fiscal consolidation should begin to ease somewhat, external demand strengthens, and investments financed by European Union structural funds increases.

Figure 1. Key economic indicators





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

Source: OECD (2012), OECD Economic Outlook, Vol. 2012/1, OECD Publishing.

2. The government's fiscal consolidation plan

Greece continues to implement its fiscal consolidation and structural reform programmes with support from the EC, ECB and IMF. In January 2012, there was a visit of the troika mission (EC, ECB and IMF) to reassess the performance of measures included in the November revision of the medium-term fiscal strategy (MTFS) for the period 2011-15. In early 2012, the caretaker Greek government adopted a supplementary budget with an additional package of fiscal measures to realign with the targets of the MTFS. Based on the troika's assessment, in March 2012 the euro area finance ministers approved financing of the second Greek economic adjustment programme for an amount of up to EUR 130 billion until 2014, including an IMF contribution of EUR 28 billion. A core feature of the new agreement is a cut of 50% (a 53% write-down of debt in nominal terms) in the EUR 206 billion of Greek public debt held by the private sector.

After the considerable progress made in 2010, the consolidation process lost steam in 2011. The government's deficit target was missed owing to the deeper-than-expected recession and slow implementation of some critical structural fiscal reforms. Thus, additional consolidation measures were adopted throughout 2010 and 2011. However, Greece achieved a substantial reduction in the general government deficit: from 15.6% of GDP in 2009 to 9.1% in 2011 (Figure 2A).

In the second economic adjustment programme, fiscal targets for 2012 and subsequent years have been adjusted to take into account the unfavourable macroeconomic developments. The programme aims at a primary deficit of 1% of GDP in 2012 and a primary surplus of 4.5% of GDP in 2014. The government still aims to: cut the budget deficit to below 3% of GDP by 2014, and to 1.1% in 2015; increase competitiveness and growth through sweeping structural reforms that will help the country to return to positive growth rates by 2013; and safeguard the stability of the financial sector. In the second programme, the implementation of the growth-enhancing structural reform agenda gains prominence, while restructuring the debt and higher official financing allows a slower fiscal adjustment and a more gradual privatisation process.

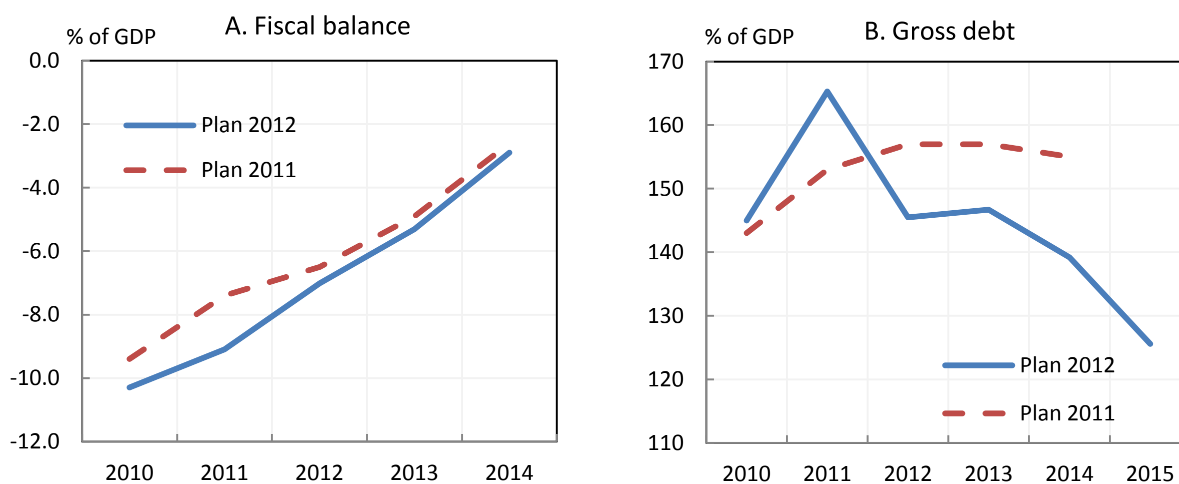
The government expects that the general government gross debt (Maastricht basis) will peak in 2011 and fall every year – except for a small rise in 2013 – until it reaches 125.6% in 2015 and eventually the

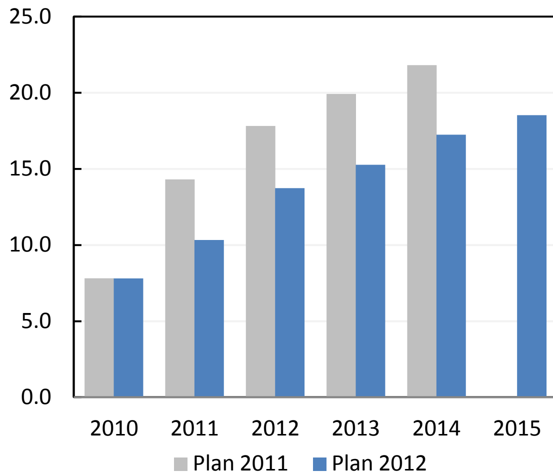
objective of a debt-to-GDP ratio of 120% by 2020 (Figure 2B). However, in the Greek debt sustainability baseline the IMF estimates that the debt will fall more slowly before it reaches 116% in 2020 (SNA definitions).

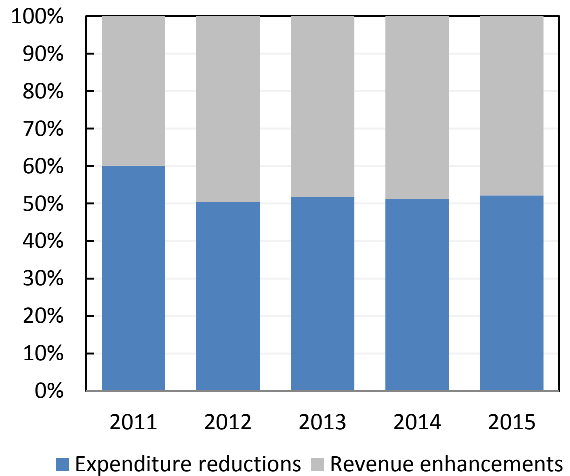
There are mainly three categories of measures in the consolidation plan: horizontal measures mostly on the expenditure side (reduction of operational costs, new wage bill, etc.); targeted measures addressing specific areas on both the revenue and the expenditure sides (see Section 3 for details); and structural measures that will increase competitiveness and eliminate rigidities in the long run. According to the government's estimates the total fiscal consolidation is now estimated to a cumulative impact of 18.5% of GDP by 2015 (Figure 2C). The additional measures adopted in 2012 (1.5% of GDP) is not included. Most of the above measures are permanent in terms of budget impact, but there are also a few one-off measures affecting the budget for one or two years. The composition of the measures is about one-half expenditure cuts and one-half revenue enhancement measures in cumulative terms. The most recent measures decided in 2012 (1.5% of GDP) are all on the expenditure side of the budget (Figure 2D). The consolidation measures affect all the sub-sectors of the general government (Figure 2E).

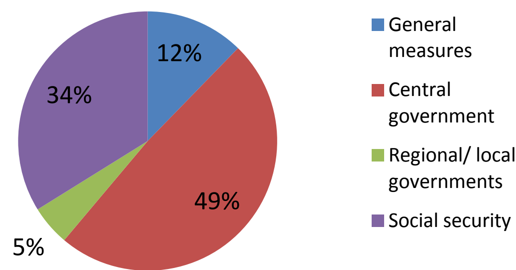
The government has a spending review under way, to be completed by end May 2012, and its results should be taken into account in the new MTFS for 2013-16. The government expects that the outcome of the spending review will provide recommendations as regards rebalancing of public spending from areas and sectors with low added value to the economy towards incentives to support growth in the private sector and regeneration of local economies. The government envisages implementing the following measures to restore economic growth: market deregulation and liberalisation; reduction of employers' contributions and labour costs; surging exports and enhancing the business environment; reducing the prices of goods and services; opening of closed professions; and acceleration of the absorption rate of EU funds.

Figure 2. The government's planned fiscal consolidation









Notes: Fiscal balance is general government financial balance and gross debt is gross financial liabilities (Maastricht basis) as a per cent of nominal GDP projected by the government. Fiscal consolidation is the cumulative consolidation volume as a per cent of nominal GDP projected by the government, including implemented measures in 2010 (OECD, 2011). The composition of consolidation is expenditure reductions and revenue enhancements in the actual year (cumulative, total 100%). Data on composition in 2010 were not provided. The consolidation by level of government is the annual average of consolidation measures. Data concerning "Plan 2012" includes implemented consolidation efforts in 2010 and 2011.

Source: "OECD Fiscal Consolidation Survey 2012" and "Restoring Public Finances" (OECD 2011).

Table 1. The government's fiscal consolidation plan

	2010	2011	2012	2013	2014	2015
Fiscal consolidation volume and path, % of nominal GDP						
Total fiscal consolidation volume	7.8	10.3	13.7	15.3	17.2	18.5
Fiscal balance, deficit (-)/ surplus (+)	-10.3	-9.1	-7.0	-5.3	-2.9	*-1.1*
Gross debt	145.0	165.3	145.5	146.7	139.2	*125.6*
GDP growth rate in per cent, year on year						
Nominal GDP growth forecasts			-2.4%	1.0%	2.6%	3.3%
Fiscal consolidation through expenditure reductions and/or revenue enhancements (total = 100%)						
Expenditure reductions		60%	50%	52%	51%	52%
Revenue enhancements		40%	50%	48%	49%	48%
Fiscal consolidation, million EUR						
Expenditure reductions		13 518	14 702	16 949	19 477	21 977
Revenue enhancements		8 958	14 480	15 832	18 520	20 174
Total consolidation	17 731	22 476	29 182	32 781	37 996	42 151

Notes: Nominal GDP growth forecasts are calculated by the OECD on the basis of government estimates of nominal GDP. Fiscal consolidation in national currency is calculated by the OECD based on government estimates of consolidation volume in per cent of GDP, including consolidation in 2010 based on OECD (2011b). Actual figures on fiscal deficit and gross debt for 2010-11 are based on Eurostat data. Fiscal consolidation in 2010 is based on "Restoring Public Finances" (OECD, 2011b).

Source: "OECD Fiscal Consolidation Survey 2012", "Restoring Public Finances" (OECD, 2011b) and OECD calculations.

3. Major consolidation measures

Greece has introduced wide-ranging expenditure reductions and revenue enhancement measures (Table 2). The Greek government has introduced, among others, rationalisation of special wage regimes (police, military personnel, firemen, university professors, diplomats, judges, doctors), evaluation and restructuring of public central administration, closure of general government entities, health sector measures, cuts in military spending, subsidy to public transportation companies (inside the general government sector), rationalisation of the VAT refund for the agricultural sector, and a financial transaction tax. On the expenditure side, programme measures constitute the largest effort (4.2% of GDP) while different programmes (social security fund, improved tax compliance, removing tax exemptions and raising other tax revenue) contribute to the revenue enhancement measures.

Table 2. Major consolidation measures

Million EUR

	2010	2011	2012	2013	2014	2015
I. Expenditures		3 302	6 350	8 289	10 669	12 722
% of nominal GDP		*1.5%*	*3.0%*	*3.9%*	*4.8%*	*5.6%*
A. Operational measures		984	2 191	2 436	2 844	3 235
% of nominal GDP		*0.5%*	*1.0%*	*1.1%*	*1.3%*	*1.4%*
Cut the public sector wage bill		802	1 926	2 010	2 095	2 166
Cut operational expenditure		182	265	426	749	1 069
B. Programme measures		2 318	4 159	5 853	7 825	9 488
% of nominal GDP		*1.1%*	*2.0%*	*2.7%*	*3.6%*	*4.2%*
Cut extra-budgetary funds		304	395	474	673	739
Restructure state-owned enterprises		0	214	468	726	962
Cut defence expenditure		0	0	133	266	400
Cut/improve health-care expenditure		13	227	376	579	942
Cut pharmaceutical expenditure		372	601	701	801	901
Cut expenditure of the social security funds and social spending		679	1 667	2 577	3 587	4 287
Cut/improve public investment budget		800	804	804	804	804
Re-evaluate local government expenditure		150	250	320	388	452
II. Total revenue enhancement measures		2 188	6 254	7 743	10 145	11 679
% of nominal GDP		*1.0%*	*2.9%*	*3.6%*	*4.6%*	*5.1%*
Increase social security fund revenue and stop contribution evasion		651	1 107	1 780	2 742	3 379
Improve tax compliance		0	0	878	1 853	3 000
Reduce tax exemptions and raise other tax revenue		1 537	5 147	4 915	5 200	4 700
Increase local government revenue		0	0	170	350	600

Note: Revised quantification of measures in 2010 is not available (see OECD, 2011b). The percentage of nominal GDP is calculated by the OECD, based on the government's GDP forecasts.

Source: "OECD Fiscal Consolidation Survey 2012".

Pension

A pension reform aims at reducing the projected increase in pension expenditure over the next 50 years to below 2.5% of GDP. A unified statutory retirement age of 65 years has been introduced and an automatic adjustment mechanism linking the retirement age with the increase in life expectancy is also in place.

4. Institutional reforms

The government has introduced essential changes in several areas of its fiscal institutional framework:

Long-term projections	The MTFS time span covers the two previous years, the current year, the budget year and the three following years.
Fiscal rules	Rule of restricting recruitments to one in five retirements in the public sector; rules for restricting new guarantees to state-owned enterprises; defined targets for deficit and debt per year for the period covered by the programme.
Medium-term expenditure frameworks	The medium-term fiscal strategy (MTFS) is a top-down approach to the budget, focusing not only on the central government but also on the general government as one single whole, at the same time based on a breakdown of the budget line by line and by each separate entity. According to Law 3871/2010, the MTFS is submitted to the Ministerial Council by mid-April and presented in Parliament for vote by mid-May at the latest every year. The MTFS may be updated in case the macroeconomic data have changed significantly by September.
Expenditure ceilings or forecasts	Regarding the central government, spending ceilings are specified for each line ministry separately.
Top-down budgeting	See medium-term expenditure frameworks above.
Performance and results	The budget is being monitored on a monthly basis and re-evaluated on a quarterly basis compared to the performance criteria in the IMF/EU programme.
Budget execution practices	– Submission of supplementary budgets is not an option. – Commitment registry for all ministries (priority for payments is for past unpaid obligations; clearance of arrears and target not to create new arrears). – Appointment of accounting officers in every ministry with increased responsibilities regarding the accuracy and reliability of transmitted fiscal data. – Quarterly quantitative performance criteria (QPCs) are in place in order to monitor the general government budget execution and undertake timely corrective actions whenever needed.
Legal basis of the framework	New Budget Law 3871/2010.

HUNGARY

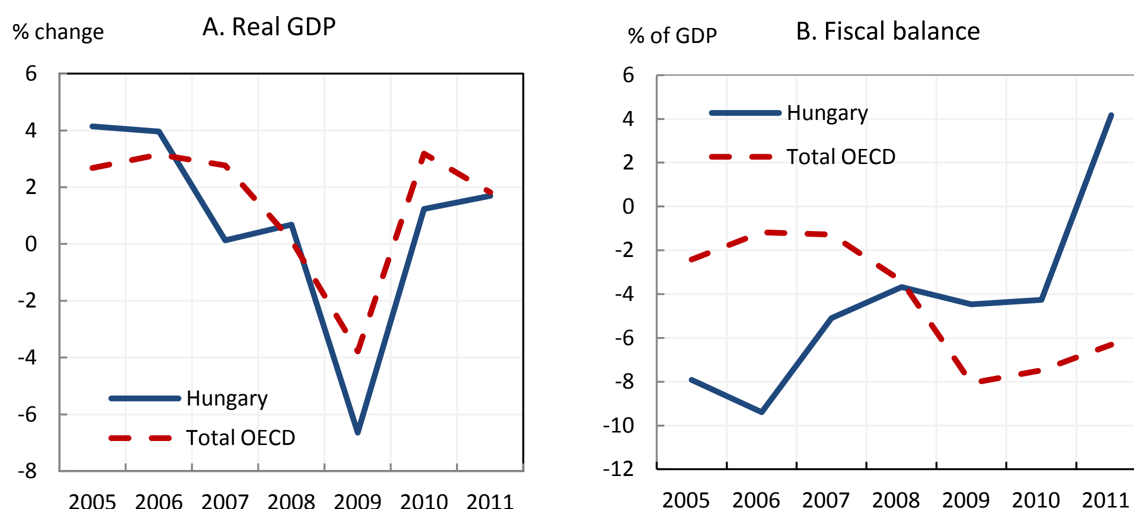
1. Economic situation

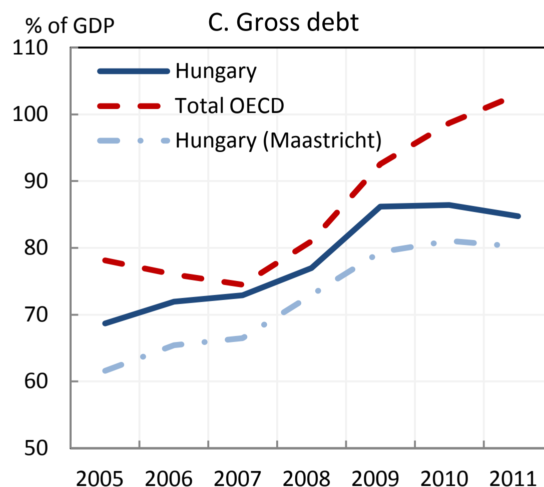
The growth rate of real GDP resumed in 2010 to reach the 2008 level, though still considerably below the growth rate before the financial crisis. The global economic slowdown and heightened financial market stress have pushed an already fragile and highly indebted Hungarian economy towards recession. But controversial domestic policies have also contributed to uncertainty, thereby hurting consumer, business and market confidence. The weak recovery in economic activity in 2011 was driven by headwinds from the euro area debt crisis, private sector deleveraging and the distributional effects of domestic policies (Figure 1A). Fiscal balance surged in 2011 to a surplus estimated at 4.2% and influenced by significant one-off items – primarily an asset transfer from private pension funds to the state pension pillar (Figure 1B). Estimates for the future fiscal balance are on the deficit side. The gross debt stabilised in 2009-10 and is estimated to fall in 2011 to 84.7% of GDP (80.2% Maastricht basis) (Figure 1C) owing mainly to currency depreciation influenced by the unsustainable level of financing costs and market pressure.

On 24 January 2012, the European Council decided to take action against Hungary, noting that the country did not comply with the Council recommendation to correct the excessive deficit in a sustainable manner. The financial turmoil forced Hungary to approach the IMF and the EU for discussions on a new programme of financial help in 2012.

The OECD expects a mild recession in 2012, driven by a fall in business and consumer confidence, tight bank lending and financial conditions, ongoing deleveraging of the corporate and household sectors, and major fiscal consolidation. A weak recovery is projected to start in the latter half of 2012 as confidence returns somewhat and global financial and economic conditions improve.

Figure 1. Key economic indicators





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

Source: OECD (2012), OECD Economic Outlook, Vol. 2012/1, OECD Publishing.

2. The government's fiscal consolidation plan

In March 2011, the government announced growth-supporting measures in the structural reform programme (Széll Kálmán Plan), aimed at reshuffling and decreasing public expenditures. It also introduced additional fiscal consolidation measures in the Convergence Programme of April 2011, and the 2012 Budget Bill includes new consolidation measures in order to attain the 2012 deficit target of 2.5% of GDP (Figure 2A). The European Commission estimates, however, that the deficit will reach 3% of GDP in 2012. In its update of the Convergence Programme of April 2012 the government confirms the deficit path set in the programme last year.

Despite a relatively favourable fiscal position in 2011, three years of sizeable fiscal consolidation from 2006 to 2009, and additional planned consolidation for 2012 and beyond, a recent deterioration in the underlying balance called for renewed efforts on top of measures adopted for 2012.This need was recognised by the financial markets, as long-term interest and credit default swap rates on public debt have risen significantly since spring 2011, the sovereign rating was downgraded to non-investment grade, and several debt auctions failed or partially failed in late 2011. In addition, the European Council took action against Hungary because of cumulative structural deterioration in 2010 and 2011 of over 2% of GDP compared to a cumulative fiscal improvement of 0.5% of GDP recommended by the Council. Also, the 2012 budget relies on net one-off revenues of around 0.7% of GDP. Against this background, the European Council decided to suspend 0.5% of GDP of EU funds in 2013 if Hungary does not take additional fiscal measures to correct its excessive deficit. The Council called for an additional fiscal effort to meet a deficit target of 2.5% of GDP in 2012, and for additional structural measures to ensure that the deficit in 2013 remains well below 3% of GDP, even after the phasing-out of one-off measures.

The government has published debt forecast in the convergence programme of April 2012. The debt level is forecasted to decline each year due to one-off measures in 2011, continuing fiscal consolidation and impact of structural measures (Figure 2B).

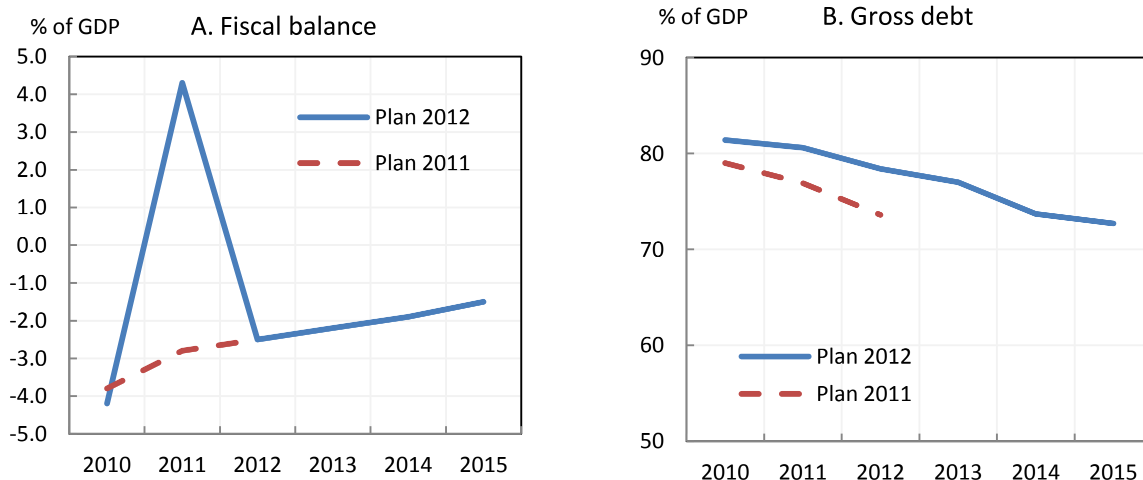
The realisation of the consolidation plan, announced by the new government at the beginning of 2011, has increased the expenditure side of the plan as extraordinary crisis taxes expire. However, the removal of crisis taxes has not yet been offset by other measures. The consolidation plan also substituted cuts in the

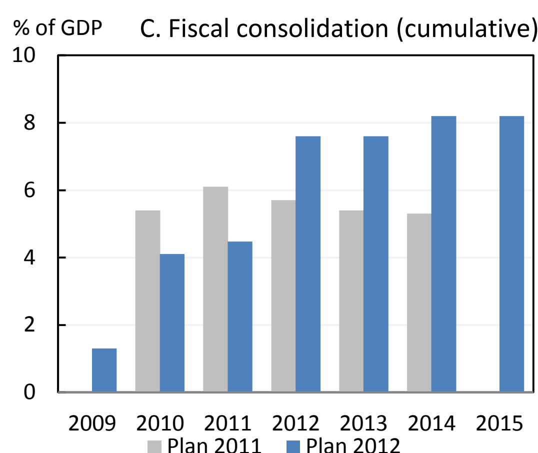
personal income tax rate in 2011 with hikes in employees' social security contributions in 2012, increases of various excise taxes, and a rise of 2 percentage points in the VAT rate to 27% (the highest level in the European Union). In addition, the government has announced further cuts in personal income tax in 2012 and legislated for more in 2013 (Figure 2D).

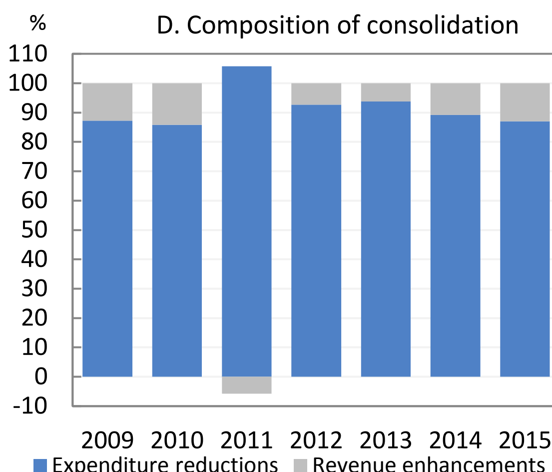
There have been some essential changes to the plan during implementation. Some measures announced by the previous government have been withdrawn (early entitlement to maternity leave was re-established up to age 3 instead of age 2). According to the government, some items of the structural reform programme (Széll Kálmán Plan) will not be realised (*e.g.* overhaul of the wage supplement system) or the speed of realising savings could be slower (*e.g.* restructuring of public transport), since a more gradual approach was considered to be socially sustainable (*e.g.* overhaul of the allowances related to disability status and health status). The residential property tax introduced in 2010 was abolished by a rule of the Constitutional Court. Savings related to state property expenditures, announced in the second half of 2010, were only realised in smaller proportion. On the other hand, savings from cuts in additional, national-level agricultural subsidies were higher than indicated in "Restoring Public Finances" (OECD, 2011).

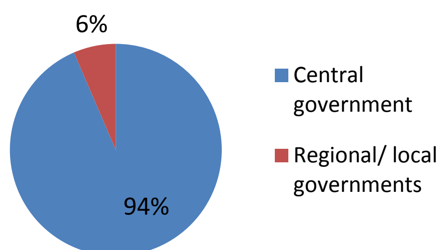
These amendments led to a reduced consolidation effort in 2010-11 and increased planned fiscal consolidation in the years beyond. The total consolidation volume will increase by 2.2 percentage points by 2014/15 (Figure 2C). All areas of public spending will be affected by the consolidation, mostly by significant expenditure cuts (Figure 2F). However, in the 2012 budget of the Health Insurance Fund, the government has allocated an additional HUF 30 billion to resolve the problem of low wages in the health sector, partly financed by a newly introduced fee on unhealthy foods. The majority of the fiscal consolidation effort (94%) relates to the central government (Figure 2E).

Figure 2. The government's planned fiscal consolidation









F. Sectors affected by fiscal consolidation

Minor expenditure cuts	Environmental protection
	Housing and community amenities
Moderate expenditure cuts	Economic affairs
Significant expenditure cuts	Defence
	Education
	General public services
	Health
	Public order and safety
	Recreation, culture and religion
	Social protection

Notes: Fiscal balance is general government financial balance and gross debt is general government gross financial liabilities (Maastricht basis) as a per cent of nominal GDP projected by the government. Fiscal consolidation is the cumulative consolidation volume as a per cent of nominal GDP projected by the government. The composition of consolidation is expenditure reductions and revenue enhancements in the actual year (cumulative, total 100%). The sectors affected by fiscal consolidation include expenditure reductions according to COFOG and the government's assessment. The consolidation by level of government is the fiscal consolidation volume on an annual average. Data concerning "Plan 2012" include implemented consolidation efforts in 2010 and 2011.

Sources: "OECD Fiscal Consolidation Survey 2012", "Restoring Public Finances" (OECD, 2011), and OECD calculations.

Table 1. The government's fiscal consolidation plan

	2010	2011	2012	2013	2014	2015
Fiscal consolidation volume and path, % of nominal GDP						
Total fiscal consolidation volume	4.1%	4.5%	7.6%	7.6%	8.2%	8.2%
Fiscal balance, deficit (-)/ surplus (+)	-4.2%	4.3%	-2.5%	-2.2%	-1.9%	-1.5%
Gross debt	81.4%	80.6%	78.4%	77.0%	73.7%	72.7%
GDP growth rate in per cent, year on year						
Nominal GDP growth forecasts	4.4%	6.3%	2.4%	4.8%	5.3%	5.2%
Fiscal consolidation through expenditure reductions and/or revenue enhancements (total = 100%)						
Expenditure reductions	*85.9%*	*105.8%*	92.7%	93.8%	89.2%	87.0%
Revenue enhancements	*14.1%*	*-5.8%*	*7.3%*	*6.2%*	*10.8%*	*13.0%*
Fiscal consolidation, million HUF						
Expenditure reductions	942	1 346	2 055	2 173	2 349	2 407
Revenue enhancements	155	-73	162	143	285	359
Total consolidation	1 097	1 273	2 216	2 316	2 634	2 767

Notes: Fiscal balance is general government financial balance and gross debt is gross financial liabilities (Maastricht basis) as a per cent of nominal GDP. Nominal GDP growth forecasts were calculated by the OECD on the basis of government estimates.

Source: "OECD Fiscal Consolidation Survey 2012", "Convergence Programme" (Ministry of Finance, April 2012), and OECD calculations.

3. Major consolidation measures

The amended consolidation plan has increased the focus on the expenditure side of consolidation, with roughly an equal focus on operational and programme measures (by cumulative volume) (Table 2). For the operational measures, the freezing of budgets and the withdrawal of carryover – related to the planned reorganisation of government – constitute the largest consolidation elements. The dominant programme measure is changes in the pension system, followed by the reduction of subsidies on drugs and the reduction of family allowances. One-off measures in 2011 (pension contribution) should be calculated in addition to the measures presented in Table 2.

In the update of the convergence programme in April 2012 the government disclose that the temporary special sectoral taxes that were introduced in 2010 were phased out and that the financial sector levy will be halved in 2013 and thereafter will be reduced to a level commensurate with European practices. The budgetary impact of these changes are according to the government offset by other savings and by further structural measures. The government also introduced some new measures in the convergence programme of April 2012, included in Table 2.

Table 2. Major consolidation measures

Million HUF (% of nominal GDP)

		2010	2011	2012	2013	2014	2015
I. Expenditures		**942**	**1 346**	**2 053**	**2 338**	**2 360**	**2 408**
	Per cent of nominal GDP	*3.5%*	*4.7%*	*7.1%*	*7.7%*	*7.3%*	*7.1%*
A. Operational measures		**317**	**642**	**969**	**1 139**	**1 118**	**1 118**
	Per cent of nominal GDP	*1.2%*	*2.3%*	*3.3%*	*3.7%*	*3.5%*	*3.3%*
A1. Staff expenditure	Freezing the gross wage bill and reducing earning compensation in the public sector, etc.	141	213	256	256	256	256
A2. Reorganisation of government	Freezing budgets, withdrawal of carryover, improved asset management and other budgetary savings, etc.	101	354	600	695	695	695
A3. Other operational expenditure		75	37	37	37	37	37
A4. Interest saving		-	38	76	151	130	130
B. Programme measures		**626**	**703**	**1 084**	**1 199**	**1 242**	**1 290**
	Per cent of nominal GDP	*2.3%*	*2.5%*	*3.7%*	*3.9%*	*3.9%*	*3.8%*
B1. Housing	Elimination of housing subsidy, etc.	0	0	0	0	0	0
B2. Agriculture	Reduction of farm subsidies, etc.	44	48	48	48	48	48
B3. Energy	Elimination of natural gas and heating benefits, etc.	59	65	65	65	65	65
B4. Health care	Reduction of health-care expenditure, *e.g.* subsidies on drugs, encouraging the use of generic products, etc.	46	47	141	172	172	173
B5. Pensions	Change in pension indexation system, elimination of 13th month pension, etc.	300	338	409	464	496	534
B6. Child and family benefits	Reduction of family allowances, etc.	52	74	134	155	155	155
B7. Transport	Reduction of subsidy to rail company, etc.	3	3	29	29	29	29
B8. Employment and labour market	Reduction of passive labour market provisions (termination of job-seeking assistance, tightening the conditions of job-seeking benefits, etc.).	0	0	118	118	118	118
B9. Education	Reduction of institutional and other organisational capacities and determinations, etc.	0	0	12	21	31	40

II. Total revenue enhancement measures		155	-73	161	154	287	359
Per cent of nominal GDP		*0.6%*	*-0.3%*	*0.6%*	*0.5%*	*0.9%*	*1.1%*
A. Social security contribution		-251	29	234	246	327	346
B. Personal income taxes		-205	-690	-1 005	-1 177	-1 147	-1 118
C. Capital taxes		240	202	202	40	39	36
D. VAT, and turnover taxes		412	421	681	844	870	898
E.-F. Taxes on wealth, and duties		-41	-35	-36	-37	-39	-40
Financial transaction levy	A turnover tax of 0.1% on financial transactions will be introduced as of the start of 2013.				130	130	130
Tele-communication service tax	An indirect tax levied on telecommunication services will be introduced starting from mid-2012 (2 HUF per started minute and 2 HUF per message SMS/MMS).			30	52	52	52
Energy provider tax	Changes in tax base and rate in the energy sector.			55	55	55	55
Insurance tax	A new, uniform insurance tax will be introduced to replace the three taxes currently levied on insurance services.					na	na
Reverse VAT in agriculture sector	A reverse VAT charge taxation in the cereal, the oil seeds and the protein plants sector is planned to be introduced as of July 2012.			na	na	na	na

Note: The percentage of nominal GDP is calculated by the OECD based on the government's GDP forecasts.

Source: "OECD Fiscal Consolidation Survey 2012" and "Convergence programme" (Ministry of Finance, 2012).

Pension

The government started reshaping the pension system in 2011 with the elimination of the obligatory private pension scheme and, according to the government; subsequent steps will follow in 2012 to reinforce the insurance and solidarity character of the pension system and to improve its long-term sustainability and transparency. The 2012 Budget includes a balanced budget for the Pension Insurance Fund. From 31 December 2011, the whole social security pension contribution flows to the Pension Insurance Fund. In the long run, however, this permanent deficit-improving effect will be gradually counterbalanced and eventually exceeded by the higher public pension expenditures.

As from January 2012, all benefits and pensions of beneficiaries and pensioners who have not reached the statutory retirement age will not be paid by the Pension Insurance Fund, but provided by the Health Insurance Fund and a newly established National Family and Social Policy Fund. With this change, pensions received by people above the statutory retirement age can be mainly financed from employee contributions and employer taxes, and there will be only marginal support from the central budget. Survivors' benefits – mainly benefits for orphans and widows – and pensions for women with 40 contributory years will continue to be financed by the Pension Insurance Fund. However, this change of financing source does not imply any improvement of the underlying insufficient sustainability of the pension system. In addition, the pressures on those who are still members of the earlier obligatory private pension scheme may result in a further round of stepping back to the public pension pillar, also due to the

decreasing likelihood that the private pension pillars will survive since they do not receive pension contributions.

In addition, early retirement benefits were transformed into social benefits in 2011, and early retirement privileges will be gradually eliminated.

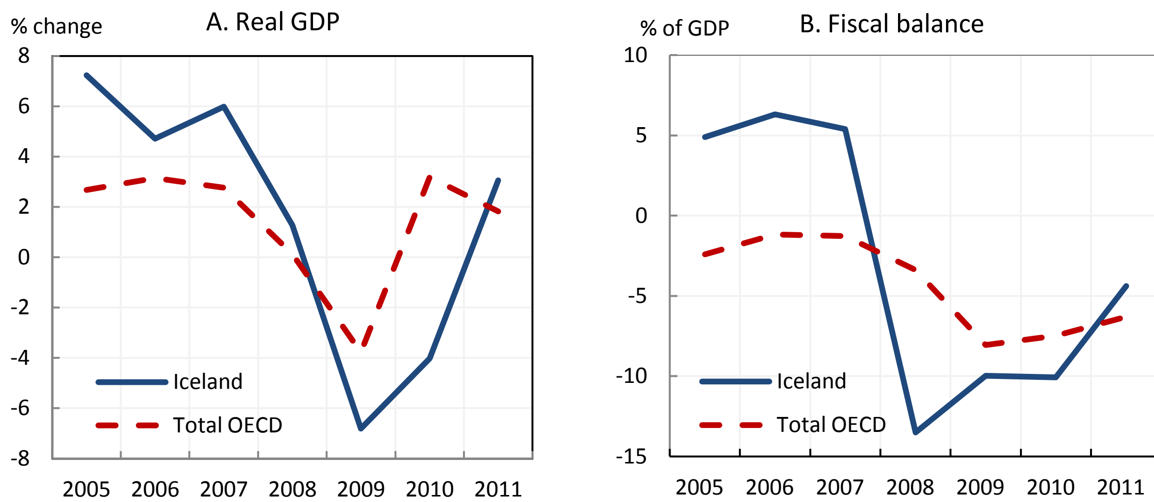
ICELAND

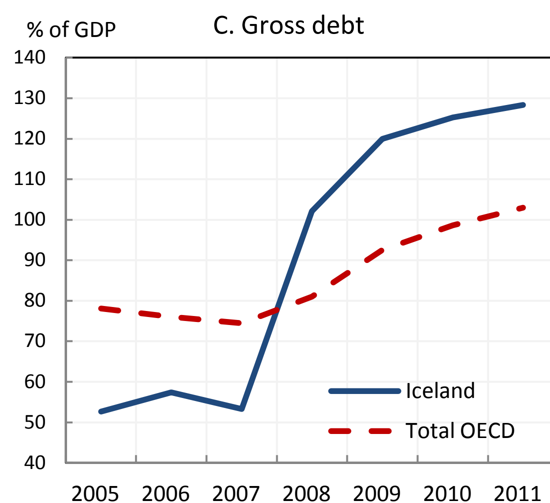
1. Economic situation

After successful completion of its IMF-supported adjustment programme, Iceland returned to buoyant economic growth (3.1%) in 2011, despite the euro-area turmoil (Figure 1A). Growth is being stimulated by private consumption, which has been boosted by debt write-downs, temporary access to pension savings and high wage settlements, and by business investment. The large collective wage increases, currency depreciation and rising commodity prices have pushed up inflation to well above the central bank's 2.5% target. The general government budget deficit fell to 4.4% of GDP in 2011 (Figure 1B). On the basis of considerable fiscal consolidation, the general government gross debt (including civil service pension liabilities of 20% of GDP) is estimated to have peaked at 128% of GDP in 2011, and net debt at 50% of GDP (Figure 1C).

The OECD expects that economic growth in Iceland will moderate to 2.75% by 2013 as the factors that boosted consumption in 2011 and the surge in private investment pass. Unemployment should fall to 5% by the end of 2013 and inflation should be on the way down to the authorities' target.

Figure 1. Key economic indicators





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

Source: OECD (2012), OECD Economic Outlook, Vol. 2012/1, OECD Publishing.

2. The government's fiscal consolidation plan

Following the banking collapse in 2008, the central government deficit hit record numbers. Due to the extreme economic circumstances, the government requested the assistance of the International Monetary Fund (IMF), as well as a number of other countries, in order to mitigate the downturn and strengthen the foundation of the economy. In spring 2009, the Finance Minister presented a report to the Icelandic Parliament on a plan with measures to achieve fiscal consolidation for the central government in the years 2009–13 amounting to an improvement in the primary balance of around 15% of GDP.

The aim of the plan was to improve the primary balance of the central government by 3-4% of GDP on average each year so that the primary balance would return a surplus in 2011 and the overall balance would be in surplus in 2013. The consolidation plan was mainly focused on the central government but the objectives were similar for the local governments, *i.e.* they were expected to deliver a balanced primary position in 2011 and a total surplus in 2013, and thereby contribute about 1% of GDP to improving the position of the general government. Further objectives of the consolidation plan were to stop debt accumulation and to reduce the total central government gross debt to below 60% of GDP in the long term.

During the preparation of the 2012 budget, the medium-term fiscal strategy was re-evaluated and relaxed somewhat. Currently, the turnaround in the primary balance is estimated at 10-11% of GDP instead of around 15% in the original plan. The surplus target in the primary balance has been postponed until 2012 and the surplus target in the overall balance delayed until 2014 and reduced. The long-term debt target remains unchanged. The current time frame of the consolidation plan is 2012-15. Broadly speaking, the measures taken have been equally distributed between the expenditure and revenue sides.

These changes were motivated by several factors. First, the central government gross debt is considerably lower than originally envisaged, partly because the government's cost of refinancing the banking system turned out to be lower than planned. Second, the central government cash deficit was substantially lower in 2009 and 2010 than previously projected. Third, economic growth revived more slowly than earlier envisaged and therefore fiscal policy should be eased. Fourth, the ratio of tax revenue to GDP did not appear to be increasing to the same extent as envisaged in the original plan. Fifth, confidence

in the government finances and the underlying fiscal policy had improved, which is in part reflected in the declining credit default swap rate and declining interest rates for sovereign debt.

Overall, the implementation of the measures has been mostly on track. The timing, the achieved savings and the increased revenues have turned out to be in line with targets. However, the fiscal adjustment has been offset by a few one-off expenditure items that have led to unanticipated expenditure such as ISK 27.5 billion in state guarantees on old loans held by the banks and contributions of ISK 33 billion to the Housing Financing Fund in 2010. In mid-2011, the government also decided to raise both the wages of government employees and welfare benefits; these increases had not been anticipated in the consolidation plan which had envisaged a freeze lasting until the end of 2011.

The main effort to promote economic growth has been to improve economic conditions for business operations and to introduce measures to assist households that are in difficult circumstances due to lower wages and high debt. Since the government was reducing its construction projects, an agreement was made with the pension funds to finance various investment projects in order to bring investment back to a more growth-inducing level. In addition, specific legislation was passed with a variety of incentives for innovative and developing companies and a VAT discount was introduced for households for labour-intensive maintenance and construction projects.

The Icelandic birth rate is high and the average population is relatively young. The effects of ageing on health expenditures and pension benefits will therefore not become as pronounced as might soon be the case in other European countries.

3. Major consolidation measures

Expenditure measures include (no significant amendments in the revised plan):

- significant cuts in current expenditure but with lower targets set for welfare expenditures;
- wage cut in nominal terms for many government employee groups;
- cuts in benefits and transfer payments;
- substantial reduction in investment and maintenance projects;
- increased income and wealth-testing of benefits; and
- reductions in discretionary spending items.

Revenue enhancement measures were introduced in 2009, 2010 and 2011 as well as in the budget for 2012 (or are due later this year):

- introduction of a three-bracket personal income tax (PIT) system with higher tax levels but also subject to higher tax-free allowance (in 2008 there was just one tax bracket);
- increase in the capital income tax;
- increase in social security tax and fees;
- increase in the standard VAT rate;
- new tax on wealthy individuals;
- higher inheritance tax;
- new environmental and carbon taxes;

- higher excise levies on fuel, vehicles, alcohol and tobacco;
- higher levy on the profit of fisheries;
- new levy on wage costs and profits of financial institutions;
- sale of assets and increased dividend claims on public corporations.

There were also temporary measures to further boost revenue. These measures included the possibility of withdrawing savings from individual supplementary pension savings accounts (which are taxed according to PIT), and prepayment of corporate taxes by high energy users.

In the fiscal consolidation plan for 2012-15, more emphasis is put on asset sales and dividends instead of new taxation.

4. Institutional reforms

The government has introduced essential changes in several areas of its fiscal institutional framework:

Economic forecasts	Statistics Iceland took over the issuing of macroeconomic forecasts for the budget as of October 2009. An independent research unit in Statistics Iceland monitors the performance of the economy and prepares and publishes the forecasts in order to make the macroeconomic forecast both independent and credible.
Fiscal rules	The Parliament passed a new act on local governments, Act No. 138/2011 in September 2011, which includes two main fiscal rules on local government finances: • The first rule is a balancing rule for current operations of the local governments which oblige them to balance the total revenue and expenditure over a three-year period. • The second rule is a debt rule that limits the total debt and liabilities of the local governments to 150% of total revenue. Local governments with debt and liabilities above 150% are expected to bring the debt ratio under the 150% benchmark in ten years. Local governments with total debt exceeding 250% of revenue are prohibited from raising new debt except for refinancing. Fiscal rules for the central government are being contemplated in relation to preparations for a new Organic Budget Law framework that will be proposed later in 2012.
Medium-term expenditure frameworks	In the 2011 budget, a fixed expenditure frame in nominal terms was for the first time set for two years, provided that the deviation from price assumptions will be less than 1.5%. An annual unallocated budget appropriation of ISK 5 billion was to be used to meet unforeseen deviations from price assumptions and commitments. All other decisions and deviations were to be met within the overall frame. However, in mid-2011 the government raised welfare benefits and the wages of government employees – actions which deviated from these fixed expenditure frames. Apart from those increased expenditures, the frame is still in place and it is expected that expenditures will comply with the frame.
Budget	In June 2011, the Parliament passed an act with amendments to Act No. 55/1991 on

approval process	parliamentary procedures. Two changes were made regarding the budgetary process: • First, the Parliament will convene on the second Tuesday of September each year instead of 1 October. This implies that the government must submit the budget bill accordingly and the Parliament will have more time to discuss and amend the budget bill. • Second, the Minister of Finance has to present to the Parliament no later than 1 April each year a resolution with the main expenditure frames for the next year's budget and also a report on changes in raising revenues. The resolution must be accompanied by a medium-term fiscal strategy for the next three fiscal years thereafter. This will come into effect for the first time on 1 April 2013.
Budget execution practices	Overall, the budget execution practices have been strengthened since the end of 2008, encompassing increased risk assessment of overruns in the budget, stronger requirements on what the supplementary budget would cover, and increased political commitment when enforcing the fiscal consolidation plan.
Legal basis of the framework	In October 2011, the Ministry of Finance started to work on a new comprehensive Organic Budget Law with the aim of strengthening the legal framework of public finances as a whole, including the budgetary process and budgetary execution. It is expected that the government will present the new bill to the Parliament in 2012. The new law, which is in line with the IMF's technical assistance recommendations, will include provisions to address the lack of codified principles for fiscal policy making, fragmentation of the budgetary process, and loopholes in budgetary execution that allow overspending and deficiencies in the coverage of fiscal reporting (IMF, 2012 Article IV Consultation and First Post-Program Monitoring Discussion).

IRELAND

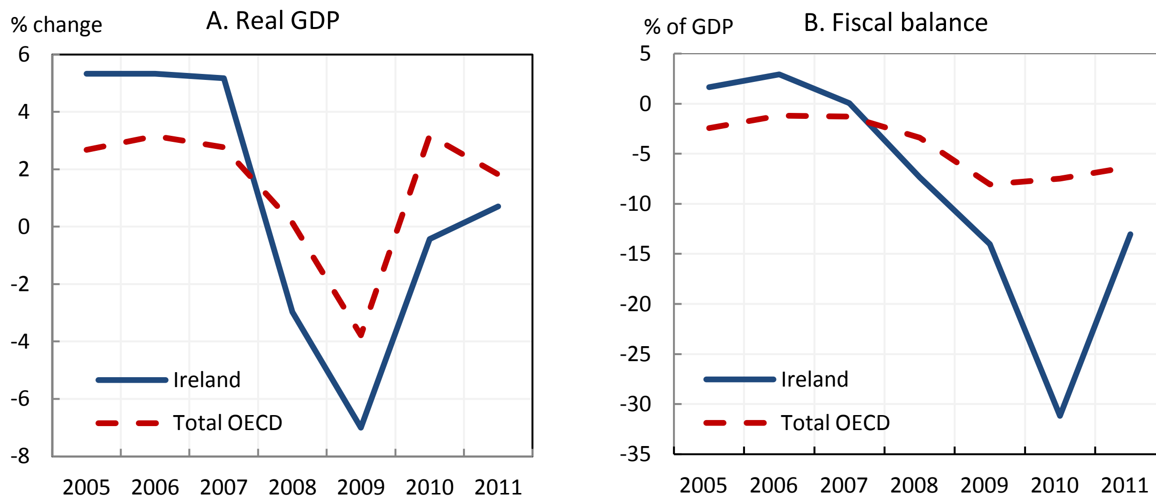
1. Economic situation

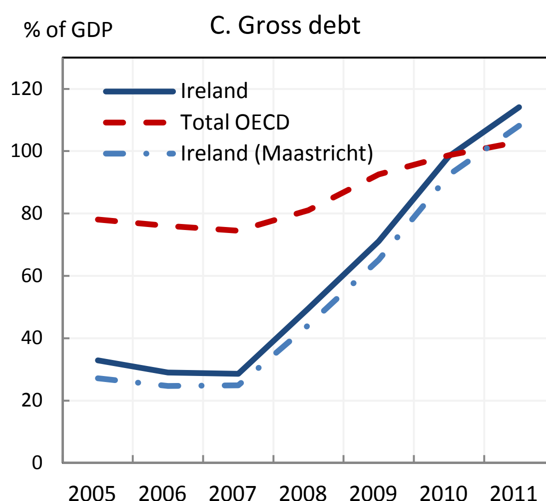
After its severe banking crisis following the international financial crisis starting in the third quarter of 2007, Ireland has made good progress in redressing fiscal and macroeconomic imbalances, with the help of the Economic Adjustment Programme agreed with the European Commission (EC), the European Central Bank (ECB) and the IMF. The Irish economy returned to growth of 0.7% of GDP in 2011 driven mainly by the strong performance of its export sector (Figure 1A). Domestic demand continues to contract due to fiscal consolidation and deleveraging by the highly indebted household sector. Lower labour force participation and some net outward migration have help to contain the increase in the unemployment rate, which was 14.5% in 2011.

Fiscal revenue and expenditure have remained in line with the 2011 budget targets and limits, respectively, and the government deficit fell to 13% in 2011 (9.4% of GDP excluding bank recapitalisation) from a record high deficit in 2010 of 31.2% of GDP (10.9% excluding bank measures) (Figure 1B). The fiscal deficits add to gross debt that has been rising constantly since 2007, reaching 108.2% of GDP (Maastricht basis) in 2011 (Figure 1C).

The OECD expects that the Irish economy will experience modest growth in 2012 due to weakened export markets and a continuing need for fiscal tightening. The recovery is expected to strengthen in 2013.

Figure 1. Key economic indicators





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

Source: OECD (2012), OECD Economic Outlook, Vol. 2012/1, OECD Publishing.

2. The government's fiscal consolidation plan

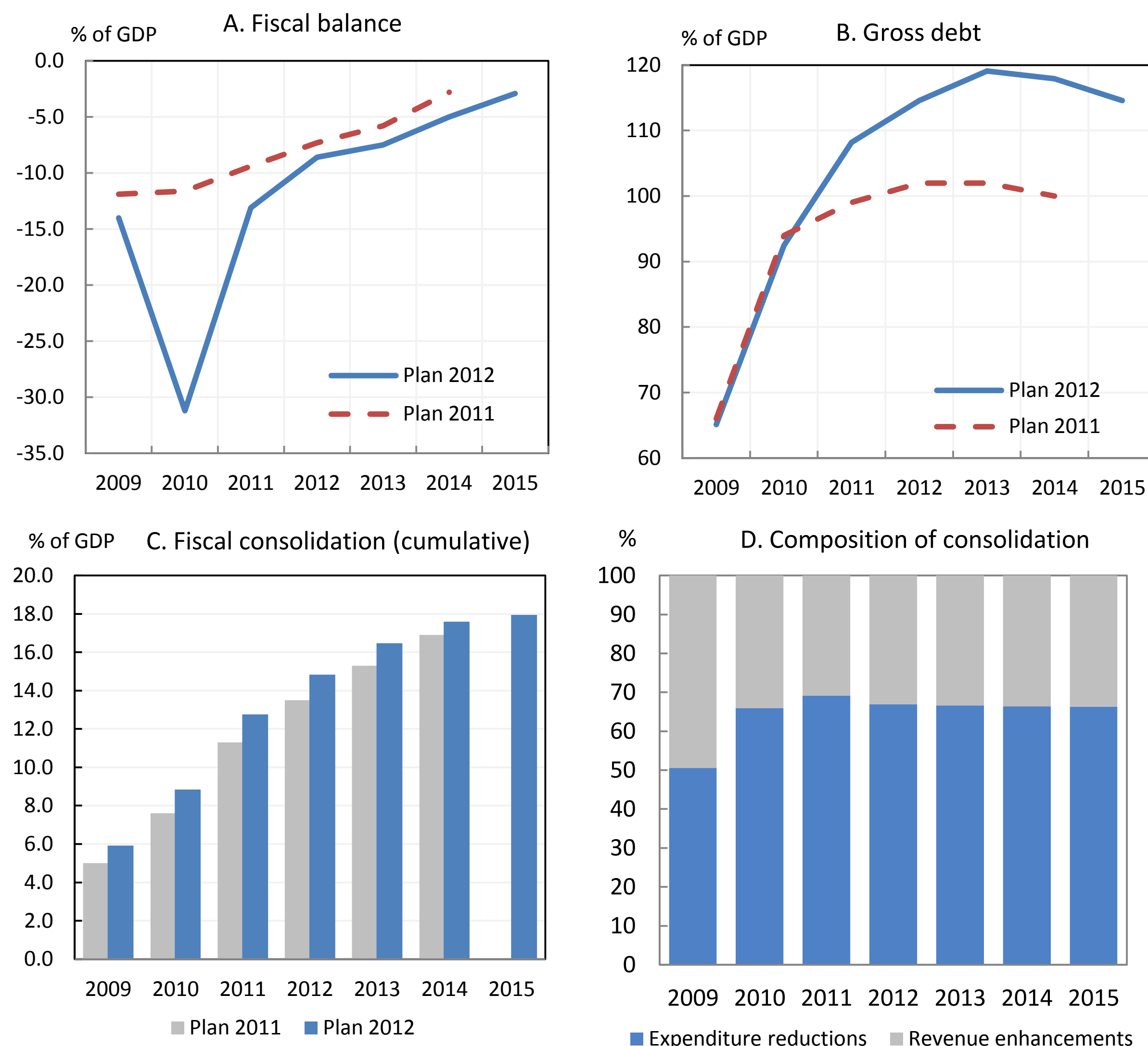
In response to the sharp and severe deterioration in the public finances, Ireland has been engaged in a process of fiscal consolidation since July 2008. The government has just entered the second year of the three-year EU-IMF Economic Adjustment Programme (EAP). In November 2011, the government announced, in its medium-term fiscal statement (MTFS) and in the 2012 budget, a continuing ambitious fiscal consolidation plan for the 2012-15 period, consistent with the EAP deficit ceilings and a targeted deficit below 3% of GDP by 2015. The budget also spelled out binding multi-year ceilings on expenditure at the level of ministerial spending groups. The government expects that Ireland will no longer be in excessive deficit after 2015, as the general government deficit is forecast to be below 3% of GDP in line with the Council of Economics and Finance Ministers in the EU (the ECOFIN Council) decision of 7 December 2010. The deficit in 2011 was below the target (9.4% versus a target of 10.6%, excluding bank recapitalisation). In April 2012, the troika (EC, ECB and IMF) quarterly review of EAP concluded programme implementation was strong and the consolidation remained on track in the first quarter of 2012. The government expects a deficit of 8.3% of GDP in 2012, below the official targets which is equal to the programme target of 8.6% (Figure 2A).

The gross debt of general government is estimated to peak in 2013 at 116% of GDP (target 114.6%), a substantially higher level than reported in "Restoring Public Finances" (OECD, 2011) (Figure 2B). The medium-term fiscal statement sets out an ambitious programme of fiscal consolidation measures. In light of a weaker economic outlook, the amount of measures was revised upwards marginally in the 2012 budget compared to the original consolidation amount planned in the EU-IMF programme. The cumulative impact of the front-loaded fiscal consolidation from 2009 to 2015 is calculated at 17.9% of GDP (Figure 2C). The composition of consolidation measures shows roughly a two-thirds focus on expenditure cuts, starting with a balanced mix in2009 (Figure 2D). The consolidation measures affect public sector operational expenditures, capital investment, and social security and health expenditures.

The government has introduced several initiatives to promote economic growth. The "Jobs Initiative" of May 2011 contains a range of measures aimed at assisting employment, including the introduction of a second reduced VAT rate aimed primarily at the tourism sector, a halving of the employers' social insurance (PRSI) rate for lower paid workers until 2013, small amounts of additional current and capital

expenditure aimed primarily at 'shovel-ready' projects, and increasing the number of available training places. In addition, the 2012 annual action plan for jobs, published in February 2012, identifies over 270 distinct actions to be delivered across all government departments and more than 36 state agencies for protecting or creating jobs. Reforms of structural impediments to the business environment are being addressed under the EU-IMF programme; these will underpin competitiveness and support economic growth in the years ahead. To make wage setting in occupations hard hit by recession more responsive to economic conditions, reforms of sectoral wage agreements have been submitted to parliament.

Figure 2. The government's planned fiscal consolidation



Notes: Fiscal balance is general government financial balance and gross debt is gross financial liabilities (Maastricht basis) as a per cent of nominal GDP projected by the government. Fiscal consolidation is the cumulative consolidation volume as a per cent of nominal GDP projected by the government. The composition of consolidation is expenditure reductions and revenue enhancements in the actual year (cumulative, total 100%). Data concerning "Plan 2012" includes implemented consolidation efforts in 2010 and 2011.

Source: "OECD Fiscal Consolidation Survey 2012" and "Restoring Public Finances" (OECD, 2011).

Table 1. The government's fiscal consolidation plan

	2009	2010	2011	2012	2013	2014	2015
Fiscal consolidation volume and path, % of nominal GDP							
Total fiscal consolidation volume	5.9	8.8	12.8	14.8	16.5	*17.6*	*17.9*
Fiscal balance, deficit (-)/ surplus (+)	-14.0	-31.2	-13.1	-8.6	-7.5	-5.0	*-2.9*
Gross debt	65.1	92.5	108.2	114.6	119.1	117.9	*114.6*
GDP growth rate in per cent, year on year							
Nominal GDP growth forecasts		-2.9%	-0.5%	2.5%	3.4%	4.3%	4.5%
Fiscal consolidation through expenditure reductions and/or revenue enhancements (total = 100%)							
Expenditure reductions	51	66	69	67	67	66	66
Revenue enhancements	49	34	31	33	33	34	34
Fiscal consolidation, billion EUR							
Expenditure reductions	4.80	9.10	13.70	15.80	18.05	20.05	21.35
Revenue enhancements	4.70	4.70	6.10	7.80	9.05	10.15	10.85
Total consolidation	9.50	13.80	19.80	23.60	27.10	30.20	32.20

Notes: Nominal GDP growth forecasts are calculated by the OECD on the basis of government estimates of nominal GDP. Fiscal consolidation in national currency is calculated by the OECD based on government estimates of consolidation volume in per cent of GDP.

Sources: "OECD Fiscal Consolidation Survey 2012" and OECD calculations.

3. Major consolidation measures

Ireland has introduced wide-ranging expenditure reductions across departmental spending (Table 2). The expenditure measures that contribute the most include the reduction of staff expenditures through initially wage cuts and more recently job cuts, and broad-based programme measures following cuts in general departmental spending and capital expenditures. The single most important set of measures on the revenue side concerns increased income tax particularly by widening the base which had become very narrow pre-crisis.

Table 2. Major consolidation measures

Billion EUR

		2009	2010	2011-14	2015
I. Expenditures		3.59	4.16	11.56	12.86
	% of nominal GDP	*2.2%*	*2.7%*	*6.7%*	*7.2%*
A. Operational measures		1.84	1.13	1.36	1.36
	% of nominal GDP	*1.1%*	*0.7%*	*0.8%*	*0.8%*
A1. Staff expenditure	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).	1.70	1.01	1.20	1.20
A2. Operational expenditures		0.14	0.12	0.16	0.16
B. Programme measures		1.75	3.03	10.20	11.50
	% of nominal GDP	*1.1%*	*1.9%*	*5.9%*	*6.4%*
B1. 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.	0.45	0.63	3.30	Additional 1.30
B2. 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.	0.40	0.80	2.00	
B3. 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.	0.08	0.22	0.10	
B4. Health	Cuts of about EUR 750 million for health care in budget 2011.	0.24	0.42	1.80	
B5. Capital spending	The capital budget will contribute EUR 3 billion to the 2011-14 cuts.	0.58	0.96	3.00	
C. Other expenditure measures					
Other initiatives	Ireland's national minimum wage is to be cut by 12% to EUR 7.65 in 2011.			n.a.	n.a.

II. Total revenue enhancement measures		5.78	5.91	8.50	9.73
	% of nominal GDP	*3.6%*	*3.8%*	*5.0%*	*5.4%*
A. Excises	Taxation measures which generate revenue for excises. These include excise duties on fuel, tobacco, travel, and carbon taxes.	0.68	0.92	1.02	1.24
B. Income tax	Measures designed to yield increased income taxes, including **pay as you earn tax** (PAYE) and deposit interest retention tax (DIRT).	4.55	4.61	7.10	7.19
C. VAT	VAT will rise from 21% to 22% in 2013, and to 23% in 2014.	0.23	0.06	0.10	0.77
D. Capital taxes		0.32	0.32	0.36	0.52
E. Property tax	This includes a charge of EUR 200 on second homes and the introduction of a household charge of EUR 100.	0.04	0.04	0.00	0.16
F. Corporation tax		-0.03	-0.03	-0.04	-0.05
G. Stamp duties		0.00	0.00	-0.04	-0.10

Note: The percentage of nominal GDP is calculated by the OECD, based on the government's GDP forecasts.

Source: "OECD Fiscal Consolidation Survey 2012".

4. Institutional reforms

The government has introduced essential changes in several areas of its fiscal institutional framework:

Economic forecasts	A Fiscal Advisory Council has been established which assesses the appropriateness and soundness of the government's macroeconomic projections and of the government's proposed fiscal policy stance. At an EU level, the introduction of a European Semester, a cycle of economic policy co-ordination, and other governance reforms has affected timelines for the production of macroeconomic forecasts by the Department of Finance.
Medium-term expenditure frameworks	Proposals presented at end 2011. To be implemented over the course of 2012.
Expenditure ceilings or forecasts	Departmental expenditure ceilings (binding limits for three years) were introduced at end 2011.
Performance and results	Outputs and performance information published alongside financial information for the majority of departments for the 2012 estimates.

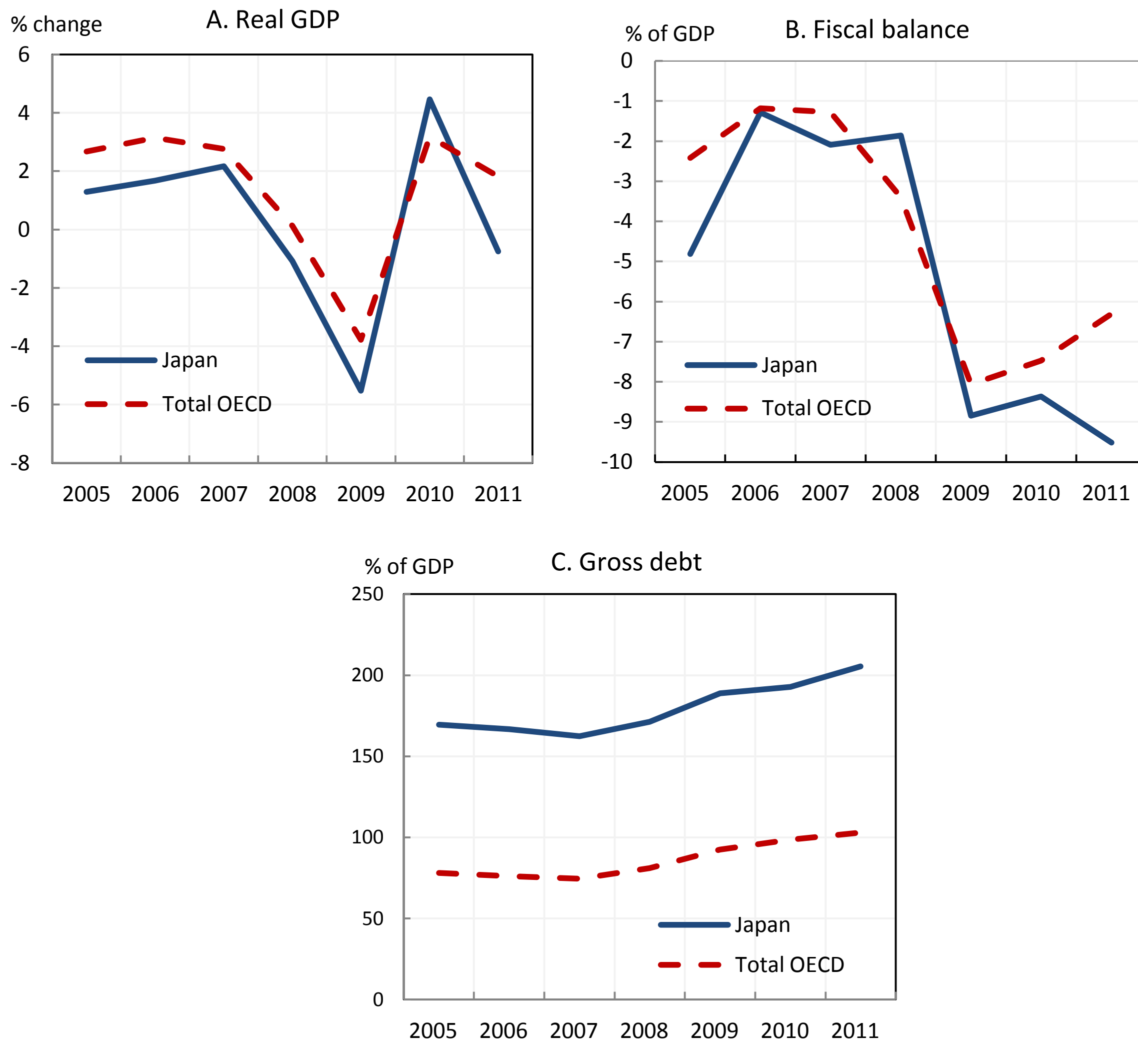
In addition, the government reports that fiscal rules are to be included in the Fiscal Responsibility Bill, expected to be published by end June 2012, to ensure that public finances are managed in a prudent and sustainable manner from year to year. The bill will also put the Fiscal Advisory Council on a formal statutory footing.

JAPAN

1. Economic situation

After the sharp output decline of 5.5% in 2009 due to the global recession, the Japanese economy began to recover in 2010 thanks to fiscal stimulus. However, in the wake of the Great East Japan Earthquake in March 2011, the Japanese economy contracted again, with a decline of 0.7% in real GDP in 2011 even if the OECD expects a 2% rise in output in 2012 supported by public and private reconstruction spending (Figure 1A). The fiscal deficit also expanded again to 9.5% of GDP in 2011 (excluding one-off factors) from 8.4% in 2010 (Figure 1B). Japan's fiscal condition has reached a critical point following 18 consecutive years of budget deficits since 1993. Consequently, gross public debt has risen rapidly to uncharted territory at around 200% of GDP, which is the highest in the OECD area (Figure 1C). Looking ahead, Japan faces the burden of reconstruction spending.

Figure 1. Key economic indicators



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

Source: OECD (2012), OECD Economic Outlook, Vol. 2012/1, OECD Publishing.

2. The government's fiscal consolidation plan

In June 2010, the Fiscal Management Strategy (FMS) re-started the fiscal consolidation process by setting a target of halving the primary budget deficit of central and local governments, from 6.4% of GDP in FY 2010 to 3.2% by FY 2015. A surplus is to be achieved by FY 2020 at the latest, allowing Japan to achieve a stable reduction in the ratio of public debt to GDP from FY 2021. To this end, central government spending in the general account budget (excluding debt repayment and interest) between FY 2011-13 was not to exceed the level in the initial budget for FY 2010. Achieving this goal in FY 2011 allowed Japan to meet its second objective of limiting the level of government bonds newly issued in FY 2011 to the FY 2010 level.

After the Great East Japan Earthquake, the government revised the medium-term fiscal framework in the FMS in August 2011. The new plan incorporates JPY 19 trillion (about 4% of GDP) in public expenditure for recovery and reconstruction over five years. These outlay will be financed by separate revenue sources such as reconstruction bonds redeemed by temporary tax hikes for 25 years mostly beginning from 2013.

According to the revised medium-term fiscal framework, all other aspects of fiscal consolidation – including government bonds issuance, revenue enhancement measures, and expenditure reduction measures – are managed separately from recovery and reconstruction projects. The revised framework also suggests four main detailed measures to realise the fiscal consolidation plan:

- The amount of government bonds newly issued in FY 2012 shall not exceed the level in the initial budget for FY 2011 (JPY 44 trillion).
- Primary spending in each year between FY 2012 and FY 2014 shall not exceed the level in the initial budget for the previous year (see Table 1).
- The government will introduce legislative measures for the "Comprehensive Reform of Social Security and Tax" for approval by the Diet (Parliament).
- The overall expenditure and revenue measures shall be managed separately from recovery and reconstruction projects and for the settlement of type-B Hepatitis lawsuits.

Table1. Primary balance expenses from FY 2012 to FY 2014

Trillion JPY

	Overall expenditure limit		
	FY 2012	FY 2013	FY 2014
Primary balance expenses (Expenses other than the pension gap)	71 68.4	71 68.4	71 68.4
Of which: contingency reserve	1	1	1

Source: "OECD Fiscal Consolidation Survey 2012".

To enhance the social security system and ensure its financial sustainability, while achieving fiscal consolidation, the Cabinet officially adopted the "Comprehensive Reform of Social Security and Tax" in February 2012. To address rising social security spending and to finance existing expenditures, Japan is planning to double the consumption tax rate to 10%, reflecting the OECD policy recommendation for fiscal policy. This change will occur in two stages: from the current 5% to 8% in April 2014 (national 6.3%, local 1.7%), and to 10% in October 2015 (national 7.8%, local 2.2%).

Consequently, and on the basis of its second evaluation of the FMS in January 2012, the Japanese government projected that it would almost achieve the mid-term target of halving the primary balance deficit by FY 2015, assuming the planned consumption tax hikes to 10%.

Coupled with the fiscal consolidation efforts, the government aims to allocate public expenditure so as to enhance output, in contrast to past spending, which did not significantly boost the economy but instead resulted in accumulating government debt. Therefore, in February 2012, Japan integrated the FMS with a "New Growth Strategy" launched in June 2010, aiming at a nominal growth rate of over 3% and a real growth rate of over 2% (average rates through FY 2020). In the Strategy, the government specified seven strategic areas: green innovation, life innovation (health), Asian economic integration, tourism-oriented nation and local revitalisation, science and technology IT, employment and human resources, and the financial sector.

3. Major consolidation measures

The main source of revenue enhancement is the two-staged consumption tax increase to 10% by 2015 from the current rate of 5%. The revenue from these increases from the national level will be legally earmarked to social security expenditures: pensions, medical care, long-term care, and child care. The revenue from the increases at the local level will also be used as financial sources for social security.

In particular, one-fifth of the increased revenue (estimated at JPY 2.7 trillion) would be spent to resolve the problem of children on the waiting list for day care and to improve the medical and long-term care services as well as measures for low-income earners (see Table 2). Likewise, the enhanced revenue will increase the central government's contribution to the basic pension, thereby reducing the burden on future generations (JPY 10.8 trillion, equivalent to four-fifths of the consumption tax rate increase) (see Table 2).

Table 2. The Comprehensive Reform of Social Security and Tax

	Trillion JPY	Consumption tax rate increase equivalent
Enhancement of social security: • Resolution of the problem of children on the waiting list for day care; • Enhancement of medical and long-term care services, measures for low-income earners, etc.	2.7	1.0%
Stabilisation of the social security system: • Increase in the national government's contribution to the basic pension; • Reducing burdens on future generations; • Covering increases in social security spending associated with raising the consumption tax.	10.8	4.0%

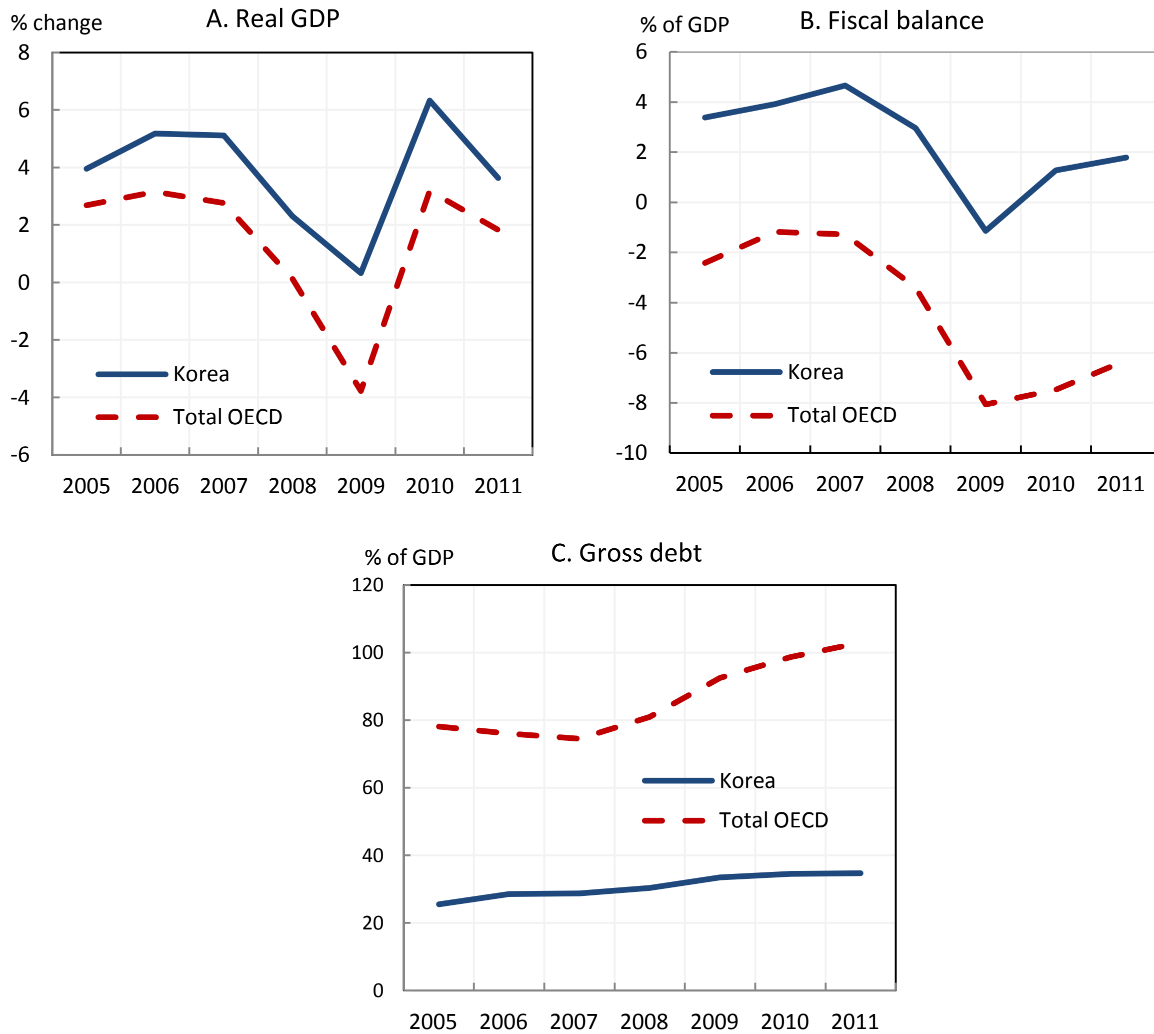
Source: "OECD Fiscal Consolidation Survey 2012".

KOREA

1. Economic situation

Korea recovered faster and more vigorously from the 2008 global crisis than most OECD countries, but real GDP growth slowed in 2011 to 3.6% from 6.3% in 2010, reflecting the deterioration in the world economy (Figure 1A). After shifting fiscal policy to spending restraint in 2010 and thanks to the legacy of fiscal restraint, Korea's fiscal balance (on a general government basis) turned to surplus (1.3% of GDP) in 2010 from a deficit of 1.1% of GDP in 2009. This shows the relatively sound fiscal condition of Korea as most OECD countries remained in fiscal deficit (Figure 1B). The gross debt has continued to increase since the 2008 crisis, but was kept at around 35% of GDP thanks to the vigorous macroeconomic recovery and sound control of the fiscal balance (Figure 1C). The OECD projects that Korea will achieve output growth of 4% in 2013 with stronger exports and boost of domestic demand.

Figure 1. Key economic indicators



Note: Fiscal balance is general government financial balance and gross debt is gross financial liabilities as a per cent of nominal GDP.
Source: OECD (2012), OECD Economic Outlook, Vol. 2012/1, OECD Publishing.

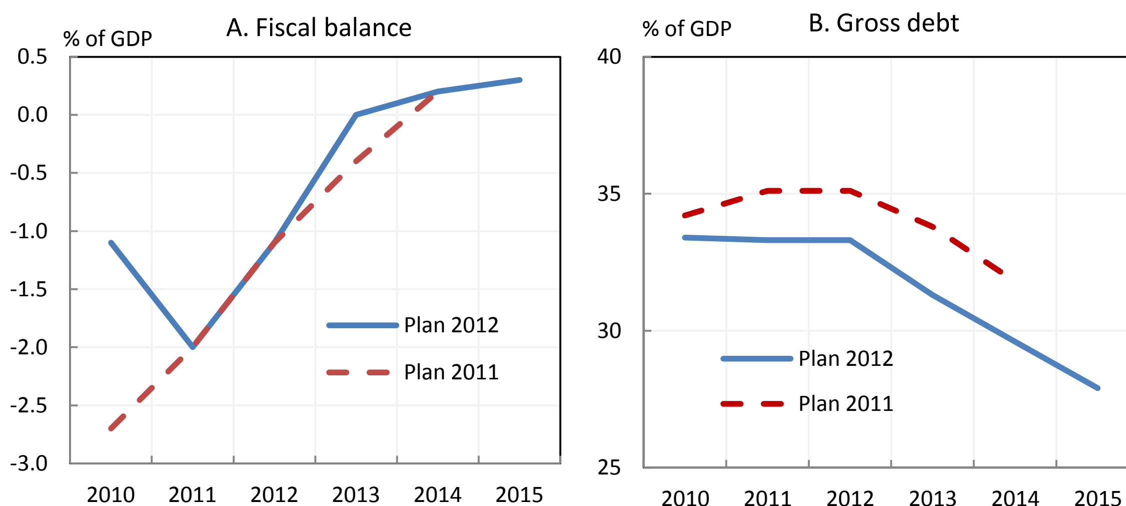
2. The government's fiscal consolidation plan

Korea shifted to spending restraint in 2010 as an exit strategy from the temporary fiscal stimulus package, which had boosted the consolidated central government budget, excluding the social security surplus, to 4.1% of GDP in 2009. The National Fiscal Management Plan (NFMP) for 2010-14 holds annual spending growth to 4.8%, which is far below the 7% growth rate experienced during 2004-08. Revenues are projected to grow 7.7% with a broadening of the tax base that reduces tax benefits for high income earners and big corporations. The NFMP set a target of reducing the fiscal deficit, excluding the social security surplus, to 0.4% of GDP in 2013 and achieving a surplus in 2014 (Figure 2A). The NFMP also introduced a fiscal rule for the first time, stating that the spending growth rate should be two to three percentage points lower than that of revenue until fiscal surplus is achieved. Thanks to these efforts, the gross debt was expected to decline gradually from a peak of 35.1% of GDP in 2011 and 2012 (Figure 2B).

As a rolling plan, the NFMP 2010-14 was updated to 2011-15 in September 2011, reflecting the implementation results of the previous plan. The government announced that it would reach fiscal surplus one year earlier in 2013, as the fiscal deficit, excluding the social security surplus, in 2010 improved to 1.1% of GDP, which is below the estimated 2.7% of GDP (Figure 2A). Coupled with an improvement in the fiscal balance, the gross debt was reduced to 33.4% of GDP in 2010 which is 2.7 percentage points lower than the planned figure, and this trend is expected to continue thanks to on-going fiscal constraint. As a result, the gross debt is projected to be reduced to around 30% of GDP during 2011-13 and below 30% of GDP from 2014 (Figure 2B).

To achieve the revised goals above, the government reaffirmed that it will strictly apply a fiscal rule that keeps the growth rate of expenditure at least 3% lower than that of revenue until the fiscal balance turns to surplus (see Table 1).

Figure 2. The government's planned fiscal consolidation



Notes: Fiscal balance is a consolidated central government fiscal balance excluding the social security surplus as a per cent of nominal GDP projected by the government. Gross debt is gross financial liabilities as a per cent of nominal GDP projected by the government.

Source: "OECD Fiscal Consolidation Survey 2012" and "Restoring Public Finances" (OECD, 2011).

3. Major consolidation measures

Fiscal revenue is expected to increase 7.2% annually on average during 2011-15 (see Table 1) thanks to the following revenue enhancement measures in the 2011 tax revision:

- cancelling the planned reduction of the income and corporate tax rates in the highest bracket;
- withdrawing existing tax exemptions for bio-diesel fuel and tax credits for investments;
- introducing taxes on any profits generated by contracts within the same affiliates;
- introducing regulations on tax delinquency aimed to apply transparent and predictable punishment;
- levying gift taxes on non-profit organisations on the amount exceeding human resources costs;
- imposing taxes on the yields from domestically issued foreign currency-denominated bonds, in the same way as for won-denominated bonds;
- legislating taxes on capital gains from financial products including those involving derivatives.

To achieve fiscal surplus in 2013, the growth rate of public expenditures will be held at 4.8% on average during 2011-15 (see Table 1) through the following measures included in the NFMP 2011-15:

- strengthening the preliminary validity test for newly initiated fiscal programmes;
- reflecting performance evaluation results in annual budgeting more systematically (a 10% reduction in the budget for programmes receiving a low evaluation);
- removing redundant programmes and funds among various line ministries;
- merging similar programmes to enhance synergy effects with less investments;
- streamlining the funding structure for social welfare between the central government and local governments;
- introducing mandatory consultation with the Special Committee on Budget and Account when a standing committee proposes a bill accompanied by fiscal expenditure in the National Assembly.

Table 1. Revenue and expenditure estimates of the NFMP 2011-15

Trillion KRW

	2011	2012	2013	2014	2015	Growth rate on average
Fiscal revenue (growth rate, A)	314.4	344.1 (9.5%)	375.7 (9.2%)	395.8 (5.3%)	415.3 (4.9%)	(7.2%)
Fiscal expenditure (growth rate, B)	309.1	326.1 (5.5%)	341.9 (4.9%)	357.5 (4.6%)	373.1 (4.4%)	(4.8%)
A-B		4.0%	4.3%	0.7%	0.5%	2.4%

Note: The growth rate is a yearly growth rate of revenue and expenditure compared with the previous year.

Source: "National Fiscal Management Plan 2011-15", Korean Ministry of Strategy and Finance, September 2011.

4. Institutional reforms

The government has introduced essential changes in several areas of its fiscal institutional framework:

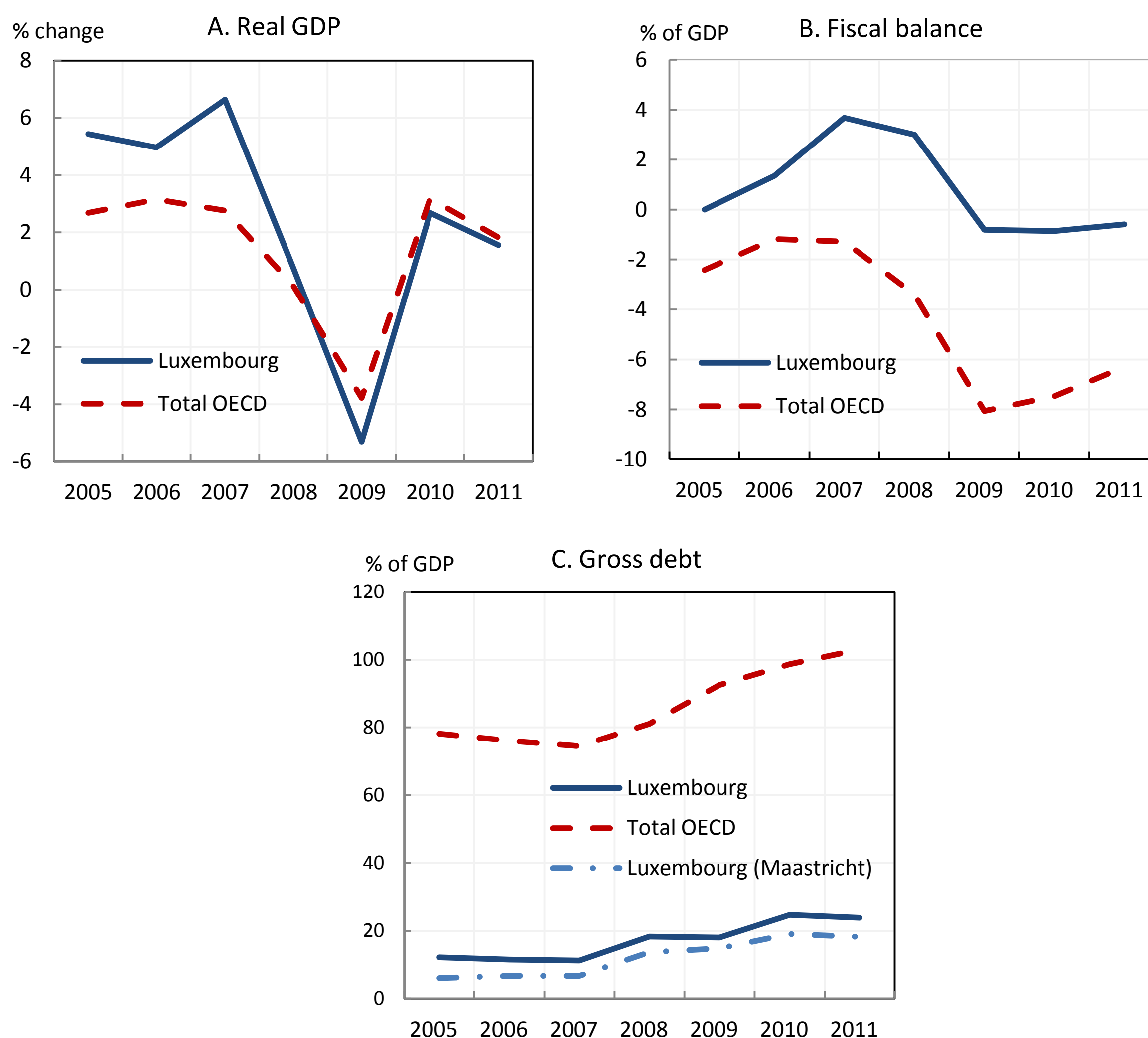
Long-term projections	Starting from 2012, a comprehensive long-term fiscal projection will be made by the government to systematically analyse and respond to the mid to long-term fiscal risks, such as increases in pension and health-care spending caused by population ageing. The Fiscal Risk Management Commission monitors fiscal risks in advance and comes up with short-term and long-term measures to respond to them.
Fiscal rules	The 2011-15 National Fiscal Management Plan strengthened the fiscal rule that keeps the growth rate of expenditures 3 percentage points lower than that of revenues until fiscal balance is achieved in 2013.

LUXEMBOURG

1. Economic situation

After a partial recovery from the 2008/2009 crisis, growth slowed in late 2011 due to deteriorating financial market conditions and weaker export markets that slowed exports of financial services and other products (Figure 1A). The general government fiscal balance has displayed moderate deficits over this period, reflecting the favourable starting position and revenue developments. Counter-cyclical fiscal policy was maintained until the 2011 consolidation measures (Figure 1B). The general government debt persists at a low level (Figure 1C). The OECD foresees that growth will resume in the second half of 2012 as financial markets and external demand recover, helping to support private consumption and investment. Further fiscal consolidation measures have been set out for 2013.

Figure 1. Key economic indicators



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

Source: OECD (2012), OECD Economic Outlook, Vol. 2012/1, OECD Publishing.

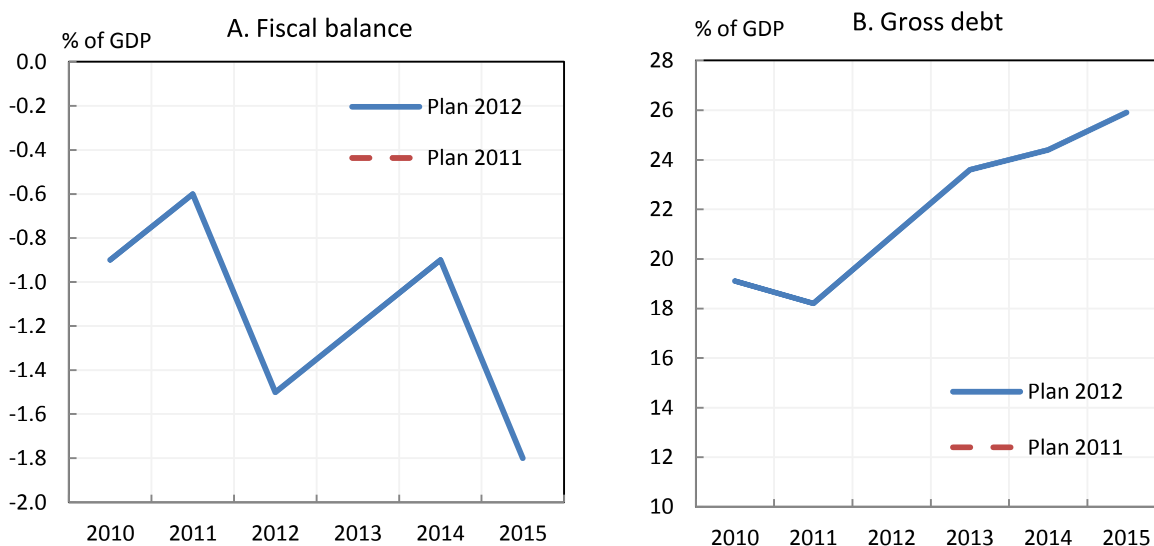
2. The government's fiscal consolidation plan

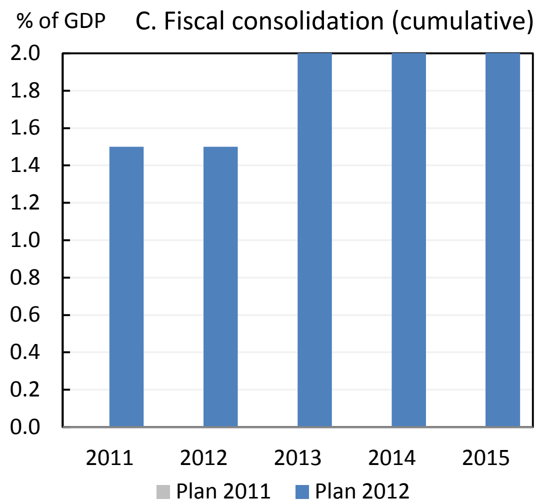
The government prepared its exit from the fiscal recovery policies in 2010 and launched a budgetary consolidation policy from 2011 onwards. In April 2012, the government adopted guidelines of a medium-term budgetary strategy. The objective of this strategy is to implement a series of budgetary consolidation measures in order to reduce the public deficit and thus to create a greater budgetary margin of manoeuvre to absorb possible negative shocks. The budgetary consolidation measures have an impact of 1.2% of GDP per annum in 2013-14 compared to a scenario based on unchanged policies. Two-thirds of savings come from reductions in public expenditure and one-third involves tax increases. Notwithstanding, the government expects that the medium-term fiscal objective will not be reached in the period to 2015. The consolidation plan, according to the 13th Update of the Luxembourg Stability and Growth Programme 2012-2015 (April 2012), set a fiscal deficit of 0.9% of GDP in 2014, increasing to 1.8% in 2015 due to a structural change affecting the revenue side of the budget (Figure 2A).

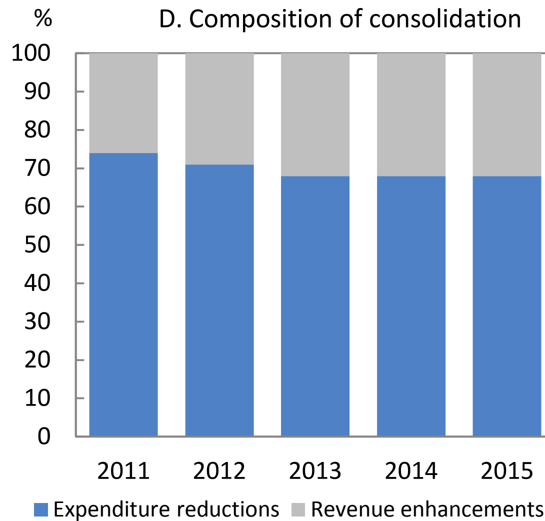
The general government gross debt (Maastricht basis) will continue to grow during the whole period until 2015, though at a substantially lower level than the OECD average (Figure 2B).

The consolidation package included in the budget of 2011 amounts to EUR 648 million (1.5% of GDP), including the effects in 2011 of the 2010 package, increasing to EUR 678 million in 2012. Additional measures of EUR 535 are adopted as of 2013-15. The cumulative consolidation package consists of EUR 830 million of expenditure savings (68%) and EUR 383 million of revenue enhancements (32%) (Figure 2C and 2D). The package will affect all three sub-sectors of general government (central government, local government and social security) but mostly the central government.

Figure 2. The government's planned fiscal consolidation







Notes: Fiscal balance and gross debt are general government financial balance and gross financial liabilities (Maastricht basis) as a per cent of nominal GDP projected by the government. Fiscal consolidation is the cumulative consolidation volume as a per cent of nominal GDP projected by the government. The composition of consolidation is expenditure reductions and revenue enhancements in the actual year (cumulative, total 100%).

Source: "OECD Fiscal Consolidation Survey 2012", "13th Update of the Luxembourg Stability and Growth Programme 2012-2015" (Ministry of Finance, 2012) and "Restoring Public Finances" (OECD 2011).

3. Major consolidation measures

The savings concern: the operational expenditures of central government, student loans and facilities, adjustment of pensions, capital transfers (including capital subsidies to the corporate sector), and investment expenditures. The revenue enhancements concern: tariff increase of the third bracket of the income tax, tariff increase of the solidarity tax, and introduction of a crisis levy.

Table 2. Major consolidation measures

Million EUR

	2011	2012	2013	2014	2015
I. Expenditures	482	**480**	**830**	**830**	**830**
% of nominal GDP	*1.1*	*1.0*	*1.8*	*1.8*	*1.8*
A. Operational measures	34	34	**149**	**149**	**149**
% of nominal GDP	*0.1*	*0.1*	*0.3*	*0.3*	*0.3*
Central government operating costs	34	34	94	94	94
Measures dampening the growth of employee compensation			55	55	55
B. Programme measures	348	348	681	681	681
% of nominal GDP	*1.0*	*1.0*	*1.5*	*1.5*	*1.5*
Reorganisation of state support in favour of students	33	33	33	33	33
Pension adjustments to general living standard development	37	4	4	4	4
Social transfers in cash (*e.g.* subsidies/transfers to households, pensions)			100	100	100
Subsidies (*e.g.* subsidies for eco-friendly cars)			10	10	10
Transfers of capital, including capital subsidies to businesses	17	17	17	17	17
Investment expenditure	361	392	517	517	517
II. Total revenue enhancement measures	166	198	383	383	383
% of nominal GDP	*0.4*	*0.4*	*0.8*	*0.8*	*0.8*
Increase of maximum marginal income tax rate	27	39	39	39	39
Increase of solidarity tax	66	69	169	169	169
Introduction of a crisis levy	73	90	90	90	90
Introduction of a minimum tax for companies			50	50	50
Excise taxes: tobacco and petrol			35	35	35

Notes: The percentage of nominal GDP is calculated by the OECD, based on the government's GDP forecasts.

Source: "OECD Fiscal Consolidation Survey 2012" and "13th Update of the Luxembourg Stability and Growth Programme 2012-2015" (Ministry of Finance, 2012).

Pension

In order to ensure the sustainability of the social security system, the government is committed to reform the pension system. In February 2012, the government introduced the main guidelines for structural reform of the pension insurance system. The guiding principles include, among others, adjusting the duration of working life to longevity. The reform preserves the current model of a "pay as you go" system and makes adjustments "parametric". Thus, it provides for reducing the pension replacement rate and increasing the effective age of retirement, including financial incentives for prolonging working lives, and encourages later retirement.

4. Institutional reforms

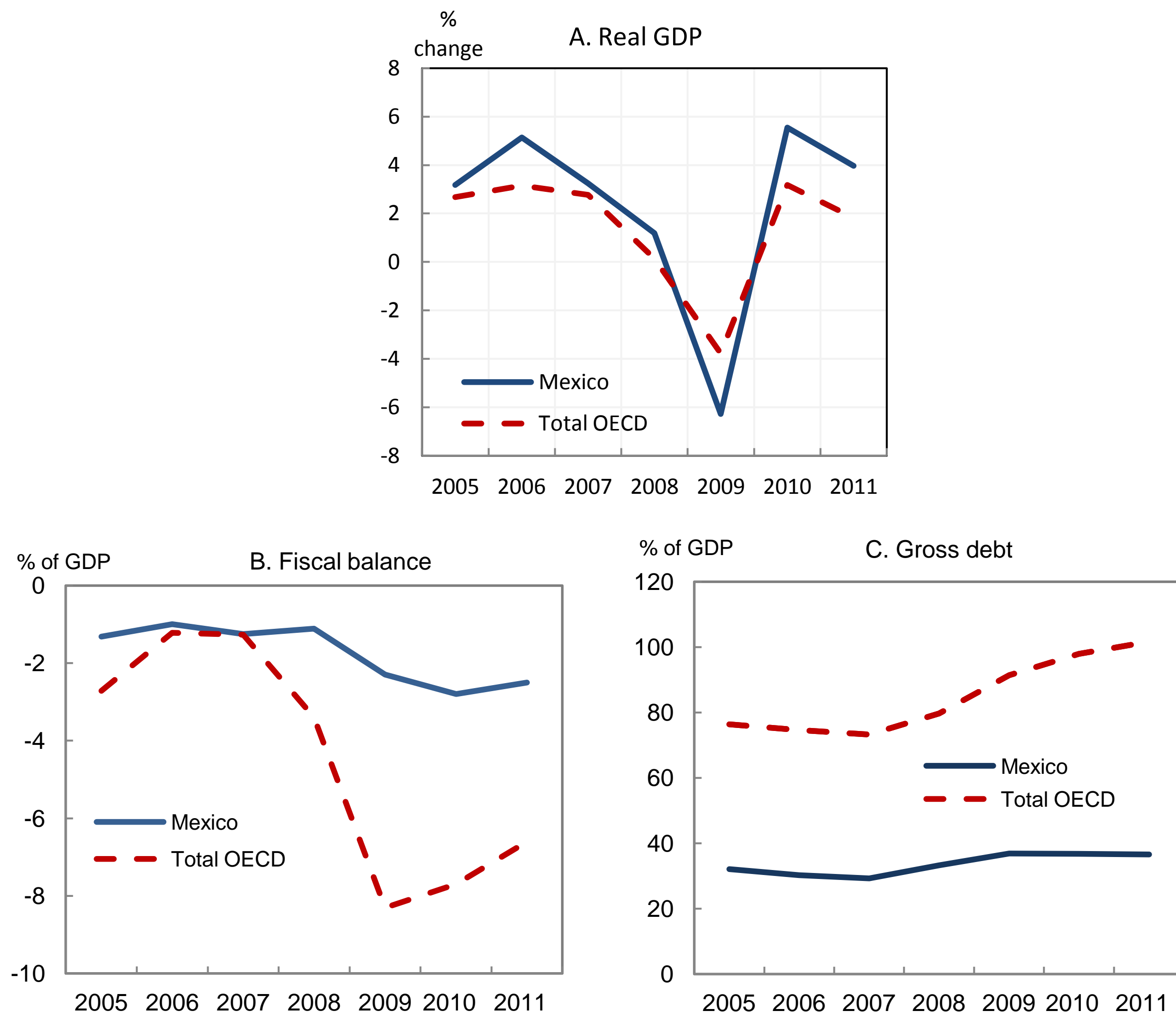
The government has adapted the budget approval process to the European semester, the EU budget surveillance, and fiscal and structural policy co-ordination within the EU. In particular, an independent forecasting committee (*Comité de Prévision*) was established and received autonomy through legislation. The *Comité de Prevision* provides the government with medium-term macroeconomic and budgetary forecasts based on the technical assumption of an “unchanged policy”.

MEXICO

1. Economic situation

Following a deep recession associated with the strong global downturn, Mexico has experienced a robust recovery, with GDP growth of 5.5% in 2010 and 4% in 2011 (Figure 1A). Export growth has slowed after the exceptional rebound of 2010, but stronger domestic demand kept the recovery on track. After launching a fiscal stimulus in 2009, the government is in the process of tightening its fiscal policy stance, raising taxes and containing expenditure growth. The result is a reduced public sector net borrowing requirement – a measure of the combined deficit of the federal government and its public enterprises – from around 2.8% of GDP in 2010 to 2.5% in 2011 (Figure 1B). Thanks to its early move towards consolidation and stabilisation of oil revenues, Mexico's gross debt has stabilised at around 36% of GDP during 2009-11 (Figure 1C). The OECD projects that an ongoing expansion of export market shares and gradually improving domestic conditions will sustain GDP growth over 3.5% in 2012 and close to 4% in 2013.

Figure 1. Key economic indicators



Notes: Fiscal balance is the public sector net borrowing requirement, including the borrowing requirements of the central government and of public enterprises, as a per cent of nominal GDP. Gross debt is the historical balance of the public sector net borrowing requirement, including the borrowing requirements of the central government and of public enterprises, as a per cent of nominal GDP.

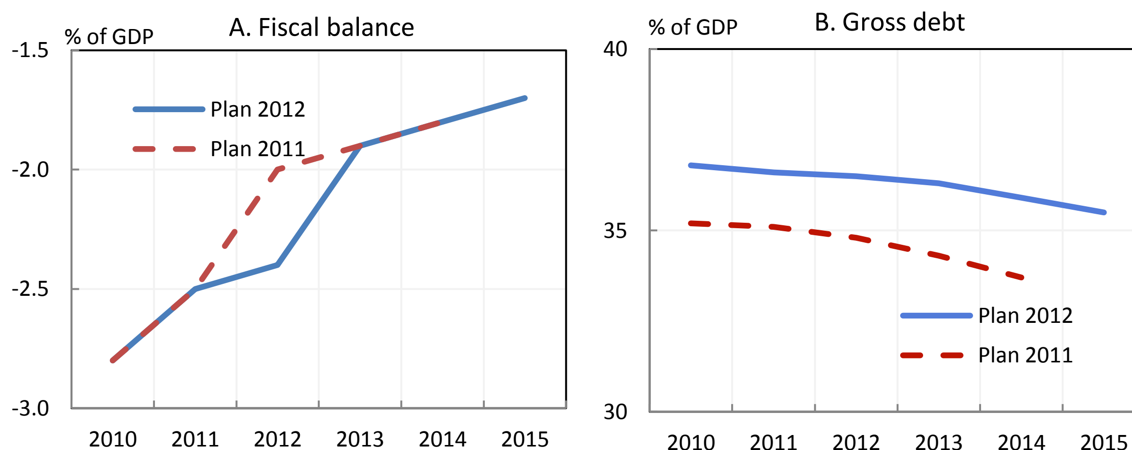
Sources: OECD (2012), OECD Economic Outlook, Vol. 2012/1, OECD Publishing, "OECD Fiscal Consolidation Survey 2012" and "Restoring Public Finances" (OECD, 2011b).

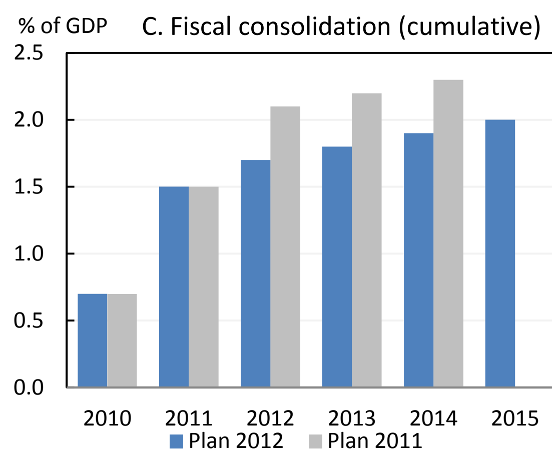
2. The government's fiscal consolidation plan

In the fiscal consolidation plan announced by the federal government in 2009, the government intended to limit spending growth and reduce its public sector net borrowing requirement including PEMEX's investments from 2.8% of GDP in 2010 to 1.8% in 2014 (Figure 2A). This target could be translated into a closing of the deficit in 2012 excluding PEMEX's investments. The government also expected that gross debt, including PEMEX's investments, would stabilise at a level of around 35% of GDP in 2010-12 (Figure 2B).

However, given considerable uncertainties regarding the health of the world economy, the Mexican government has decided to ease the pace of fiscal consolidation during 2012-14 (Figure 2C) and delay the return to a balanced budget, excluding PEMEX's investments, by one year. This modification of the fiscal consolidation schedule aims to reduce the output gap which was larger than originally expected. Consequently, the fiscal deficit in 2012 will be 2.4% of GDP higher than originally projected (Figure 2A). The fiscal deficit excluding PEMEX's investments will also return to balance in 2013, one year later than previously expected (see Table 1). Gross debt, defined as an historical balance of public sector net borrowing requirements, is projected to follow a decreasing trajectory from 36.6% of GDP in 2011 to 35.9% in 2014 higher than originally estimated (Figure 2B).

Figure 2. The government's planned fiscal consolidation





Notes: Fiscal balance is the public sector net borrowing requirement, including the borrowing requirements of the central government and of public enterprises, as a per cent of nominal GDP. Gross debt is the historical balance of the public sector net borrowing requirement, including the borrowing requirements of the central government and of public enterprises, as a per cent of nominal GDP. Fiscal consolidation is the cumulative consolidation volume as a per cent of nominal GDP projected by the government.

Sources: "OECD Fiscal Consolidation Survey 2012" and "Restoring Public Finances" (OECD, 2011).

Table 1. The government's fiscal consolidation plan

	2010	2011	2012	2013	2014	2015
Fiscal consolidation volume and path, % of nominal GDP						
Total fiscal consolidation volume	0.7	1.5	1.7	1.8	1.9	2.0
Fiscal balance[1], deficit (-)/ surplus (+)	-2.8	-2.5	-2.4	-1.9	-1.8	-1.7
Fiscal balance[2], deficit (-)/ surplus (+)	-0.8	-0.5	-0.4	0.0	0.0	0.0
Gross debt[3]	36.8	36.6	36.5	36.3	35.9	35.5
GDP growth rate in per cent, year on year						
Nominal GDP growth forecasts	9.4	7.4	6.7	7.8	7.4	7.9

1. Public sector net borrowing requirement including PEMEX's investments.
2. Public sector net borrowing requirement excluding PEMEX's investments.
3. Historical balance of the public sector net borrowing requirement.

Note: Nominal GDP growth forecasts are calculated by the OECD on the basis of government estimates of nominal GDP.

Sources: "OECD Fiscal Consolidation Survey 2012" and OECD calculations.

3. Major consolidation measures

To achieve the fiscal consolidation goals, a tax reform was approved in 2009, aiming at compensating declining oil revenues after experiencing reduced oil production during 2004-09. 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 National Public Expenditure Reduction Programme was also launched to contain expenditure growth intending to trim administrative and operational expenditures by MXN 40 billion in 2010-12.

Table 2. Major consolidation measures

Million MXN

Revenues		Budgetary impact		
		2010 (implemented)	2011 (implemented)	2012 (planned)
Value-added tax	Increasing the tax rate from 15% to 16%.	56 259	16 942	0
Income tax	Raising the corporate income tax rate from 28% to 30%. Increasing the top rate of the personal income tax from 28% to 30%. Increasing the income tax rate for agricultural producers from 19% to 21%.	26 047	42 913	0
Excise taxes	Extra excise taxes on alcohol, lotteries, games and cigarettes. Introduction of a new excise tax on telecommunications.	8 562	14 813	5 378

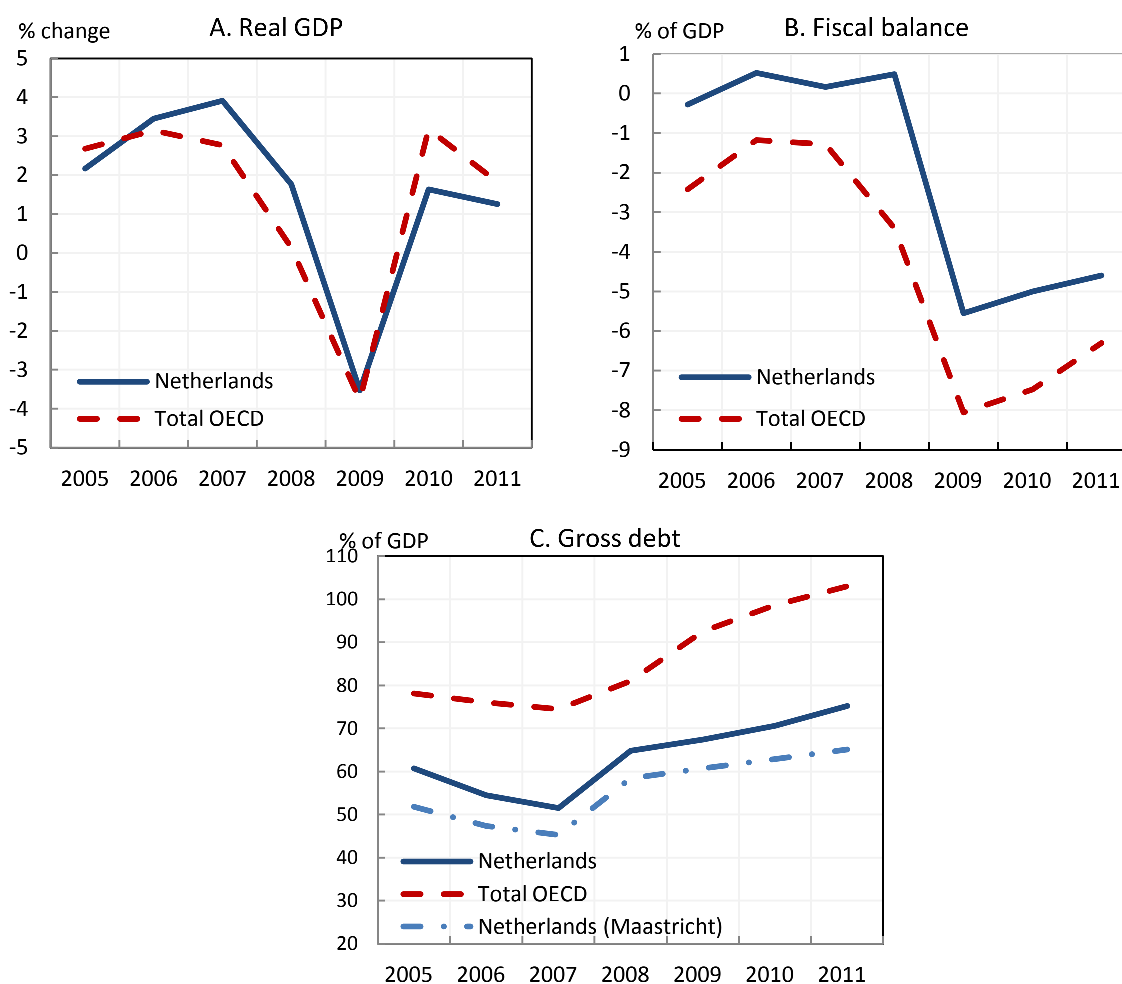
Source: "OECD Fiscal Consolidation Survey 2012".

NETHERLANDS

1. Economic situation

The economy began to contract in the second half of 2011, a growth pause from which it is expected to exit during the second half of 2012, but the growth is set to remain below potential throughout 2012-13 (Figure 1A). The main drivers behind this development are the euro debt crisis and weak household demand, arising from uncertainties surrounding the solvency of the second pillar pension system and prolonged housing market weakness. Looking ahead, the gradual economic recovery is being supported by stronger world trade and supportive monetary policy. The Dutch fiscal balance is better situated than in most OECD countries due to a sound fiscal framework that provided successive fiscal surpluses during the pre-crisis period 2006-08, contributing to a declining public debt-to-GDP ratio (Figure 1B and 1C). Nevertheless, measures to secure fiscal sustainability are still needed, particularly following a steep rise in public debt since 2008.

Figure 1. Key economic indicators



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

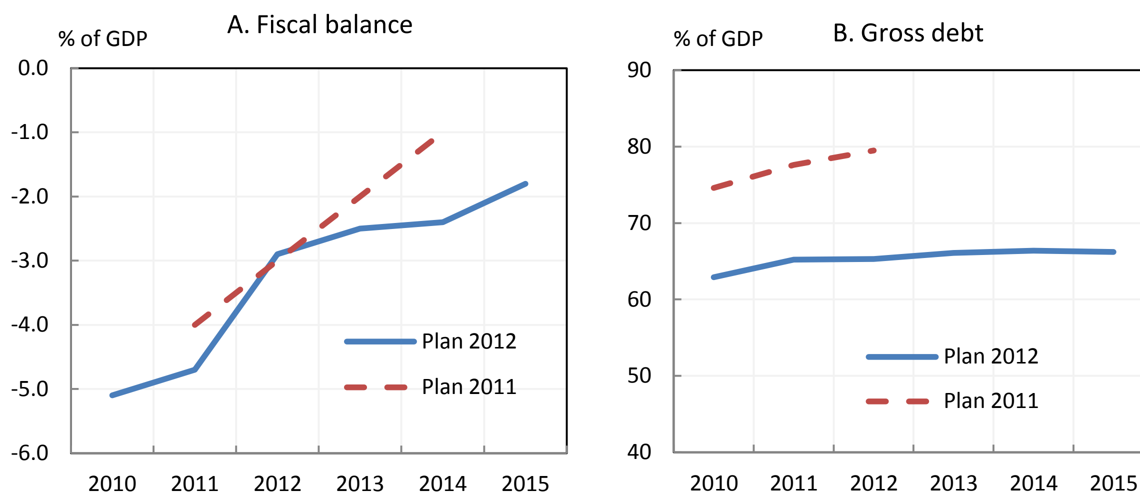
Source: OECD (2012), OECD Economic Outlook, Vol. 2012/1, OECD Publishing.

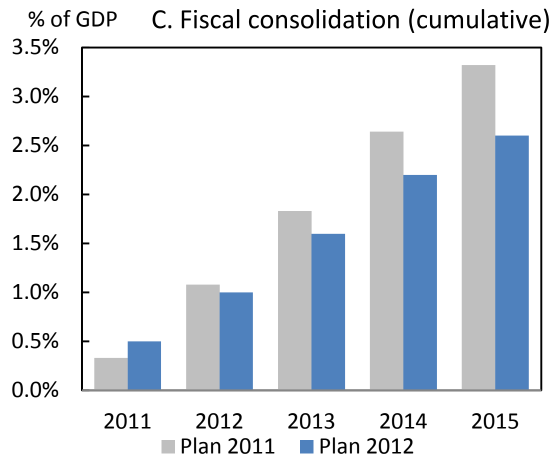
2. The government's fiscal consolidation plan

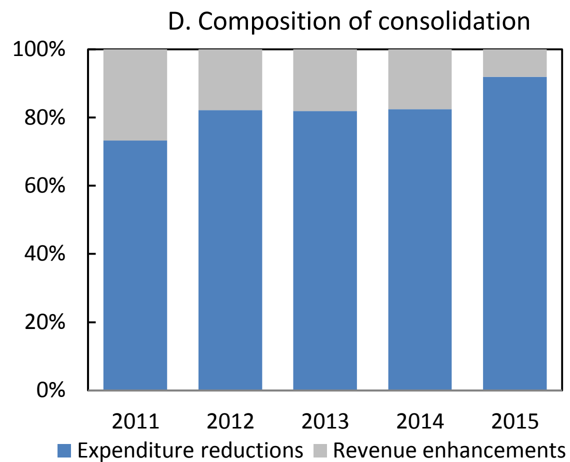
The coalition agreement of October 2010 aimed at a total reduction of the budget deficit by 2015 and a contribution to restoring financial sustainability. The latter has deteriorated over past years, as estimated life expectancy has been revised upwards and public debt has increased. Efforts to reach the initially planned fiscal balance in 2015 are encountering obstacles (Figure 2A). The growth pause, combined with allowing automatic stabilisation on the income side, imply that balance will only be achieved at a later stage. According to a new fiscal rule, the government has to implement additional consolidation measures if the deficit path falls one percentage point below the medium-term baseline scenario. In the second quarter of 2012, it became evident that the rule should be applied; the government began to form consolidation plans accordingly. However, in April 2012 the negotiations on additional consolidation lead to the fall of government.

Initially, the government expected the gross debt ratio to GDP to increase modestly and to peak at two-thirds of GDP in 2014, although recent developments point to a worsening of debt (Figure 2B). The consolidation plans are somewhat front-loaded, although still implying an accumulated effort of EUR 18 billion in 2015 (close to 3% of GDP), and rely mostly on expenditure reduction measures (Figure 2C and 2D). The reduced consolidation volume in figure 2C when compared to the reported volume in "Restoring Public Finances" (OECD, 2011b) is due to revision of GDP forecasts. The government's fiscal consolidation plan affects most sectors, except education and public order and safety (Figure 2E).

Figure 2. The government's planned fiscal consolidation







E. Sectors affected by fiscal consolidation

No expenditure cuts	Education
	Public order and safety
Minor expenditure cuts	Environmental protection
	Housing and community amenities
	Social protection
Moderate expenditure cuts	Defence
	Economic affairs
	Health
Significant expenditure cuts	General public services
	Recreation, culture and religion

Notes: Fiscal balance is general government financial balance and gross debt is general government gross financial liabilities (Maastricht basis) as a per cent of nominal GDP projected by the government. Fiscal consolidation is the cumulative consolidation volume as a per cent of nominal GDP projected by the government. The composition of consolidation is expenditure reductions and revenue enhancements in the actual year (cumulative, total 100%). The consolidation by sector of society is the relative volume of expenditure cuts to the total expenditure of the sector. Data concerning "Plan 2012" include implemented consolidation efforts in 2010 and 2011.

Sources: "OECD Fiscal Consolidation Survey 2012" and "Restoring Public Finances" (OECD, 2011).

Table 1. The government's fiscal consolidation plan

	2010	2011	2012	2013	2014	2015
Fiscal consolidation volume and path, % of nominal GDP						
Total fiscal consolidation volume		*0.3%*	*1.0%*	*1.7%*	*2.4%*	*2.9%*
Fiscal balance, deficit (-)/ surplus (+)	-5.1%	-4.7%	-2.9%	-2.5%	-2.4%	-1.8%
Gross debt	62.9%	65.2%	65.3%	66.1%	66.4%	66.2%
GDP growth rate in per cent, year on year						
Nominal GDP growth forecasts	3.0%	2.9%	3.0%	3.4%	3.0%	2.9%
Fiscal consolidation through expenditure reductions and/or revenue enhancements (total = 100%)						
Expenditure reductions		80.0%	87.5%	86.1%	85.9%	93.4%
Revenue enhancements		20.0%	12.5%	13.9%	14.1%	6.6%
Fiscal consolidation, billion EUR						
Expenditure reductions		1.6	5.6	9.4	13.4	18.3
Revenue enhancements		0.4	0.8	1.5	2.2	1.3
Other changes to fiscal balance, net		0.9	0.1	-0.5	-0.9	-1.6
Total consolidation		2.9	6.5	10.4	14.7	18.0

Notes: Nominal GDP growth forecasts are government estimates. Fiscal consolidation in the national currency is retrieved from the government's "Coalition Agreement".

Sources: "OECD Fiscal Consolidation Survey 2012" and the Dutch government's "Coalition Agreement", September 2010 (p. 18) for data on the fiscal consolidation volume.

3. Major consolidation measures

The Netherlands is implementing a wide range of measures specified in the Coalition Agreement (Table 2). There have been no changes to the concrete measures; therefore Table 2 displays the same actual amount of measures as described in "Restoring Public Finances" (OECD, 2011). Measures in per cent of GDP may undergo changes due to an update of GDP forecasts. Operational measures will amount to 1% of GDP by 2015, notably by adopting across-the-board savings in ministerial areas. Programme measures will equal 1.7% 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 2. Major consolidation measures

Million EUR (% of nominal GDP)

		2011	2012	2013	2014	2015
I. Expenditures		**1 600**	**5 600**	**9 300**	**13 400**	**18 300**
	Per cent of nominal GDP	*0.3%*	*0.9%*	*1.4%*	*2.0%*	*2.7%*
A. Operational measures		**1 000**	**2 000**	**3 500**	**5 000**	**7 000**
	Per cent of nominal GDP	*0.2%*	*0.3%*	*0.5%*	*0.8%*	*1.0%*
A1. Staff expenditure	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	800	800	900	900
A2. Operational expenditures	Cut in all operational expenditures (employment, compensation, procurement) of the administrative part (exclusive of service delivery: education, police, military, social service providers, etc.).	200	1 200	2 700	4 100	6 100
B. Programme measures		**600**	**3 600**	**5 800**	**8 400**	**11 300**
Per cent of nominal GDP		*0.1%*	*0.6%*	*0.9%*	*1.3%*	*1.7%*
B1. Subsidies		200	500	800	1 100	1 400
B2. Immigration and integration					100	100
B3. Development aid		400	900	800	1 800	1 900
B4. Social benefits			1 500	2 700	3 600	4 300
B5. Education			500	1 000	1 100	1 300
B6. Health care				100	300	700
B7. Permanent care			200	300	300	1 400
B8. Other				100	100	200
II. Total revenue enhancement measures		**400**	**800**	**1 500**	**2 200**	**1 300**
	Per cent of nominal GDP	*0.1%*	*0.1%*	*0.2%*	*0.3%*	*0.2%*
A. 16 revenue measures		400	800	1 500	2 200	1 300

Note: The percentage of nominal GDP is calculated by the OECD, based on the government's GDP forecasts.

Source: "OECD Fiscal Consolidation Survey 2012", using the same data presented in "Restoring Public Finances" (OECD, 2011).

4. Institutional reforms

The government has introduced essential changes in several areas of its fiscal institutional framework:

Fiscal rules	In October 2010, the new government endorsed a set of budgetary rules for 2011-15 in its constitutional meeting. However, the important principles of the trend-based budgetary policy – as introduced in the mid-1990s – remain unchanged for the period 2011-15. The set of budgetary rules is based on the common rules governing expenditure and revenue as adopted in the past, enhanced by a few new rules that help to further ensure the realisation of the budgetary consolidation effort over the coming years. The new rules relate to: • the adoption of a warning margin specified as a downward deviation of one percentage point relative to the path for the general government deficit adopted at the beginning of the term of office. If the warning margin is exceeded, additional consolidation measures have to be taken; • the return of expenditures that are sensitive to cyclical trends (unemployment benefits, social assistance benefits, and movements in terms of trade) within the expenditure ceiling frameworks; • the return of interest payments under the expenditure ceilings by the adoption of an interest windfall formula; • "specific" compensation of spending overruns, *i.e.* in the scheme involved or in the budget. General compensation – being the opposite of specific compensation – is limited to changes in the yield on government assets (*e.g.* interest, leases and dividends); • the implementation of a more stringent policy on the budgetary risks involved with loans and guarantees; • a windfall formula for tax relief, but only in the event that the Netherlands complies with (1) the medium-term objectives of the Netherlands and when (2) the Netherlands records a multi-year general government surplus.
Medium-term expenditure frameworks	Expenditures that are sensitive to cyclical trends (unemployment benefits, social assistance benefits, and movements in terms of trade) have again been placed within the expenditure ceiling framework. Also, interest payments have again been included under the expenditure ceilings.
Performance and results	Introduction of "accountable budgeting" in 2011. All organisational expenditures of a ministry are presented in a single non-policy article of the ministry's budget and are broken down into a few categories (personnel, ICT, etc.). Furthermore, the policy information presented in the budget documents has to match more precisely the actual role and responsibility of the ministry within a certain policy field. This should lead to shorter, more factual budget documents and prevent the use of policy information for the purpose of self-legitimisation of programmes.

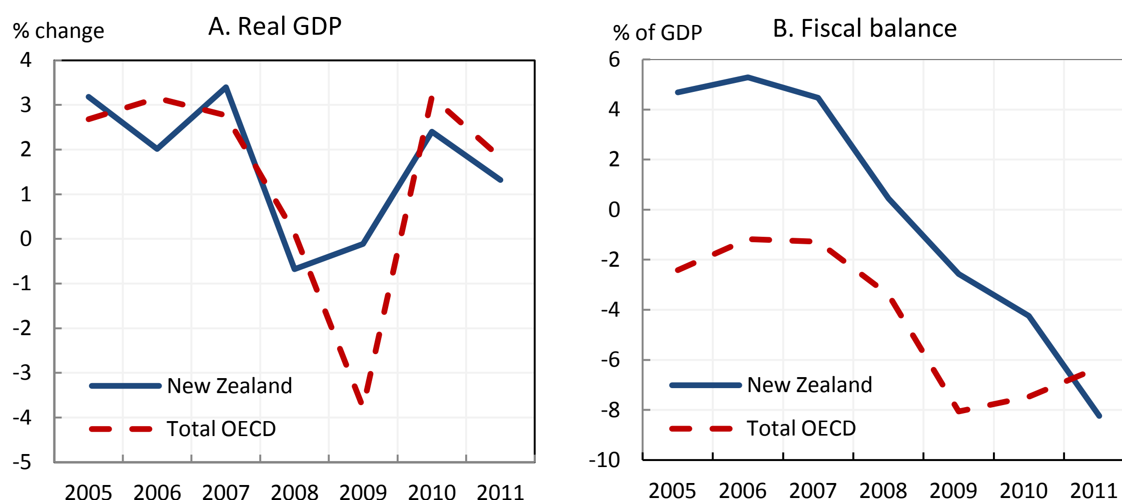
NEW ZEALAND

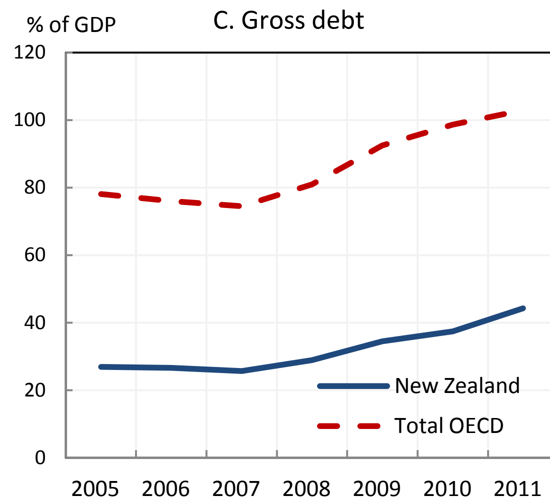
1. Economic situation

New Zealand's economy began to recover with the unprecedented policy stimulus in 2009-10 after the global recession. The economy suffered less from the international financial crisis thanks to a comparatively healthy banking sector and its trade linkages to China and other emerging markets in Asia. However, growth lost momentum in 2011 due to the sluggish global economy and the impact of a strong earthquake that struck the Canterbury region in September 2010 and followed by a more devastating second one in February 2011 (Figure 1A). The fiscal balance turned to a deficit in 2009 due to the stimulus and dropped to an estimated 8.2% of GDP in 2011 (Figure 1B). Consequently, the gross debt showed a steady increase from 28.9% of GDP in 2008 to an estimated 44.3% in 2011 (Figure 1C).

The OECD projects that New Zealand's economic growth will pick up to 2.25% in 2013 with post-earthquake reconstruction and the growth of relatively strong trading partners.

Figure 1. Key economic indicators





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

Source: OECD (2012), OECD Economic Outlook, Vol. 2012/1, OECD Publishing.

2. The government's fiscal consolidation plan

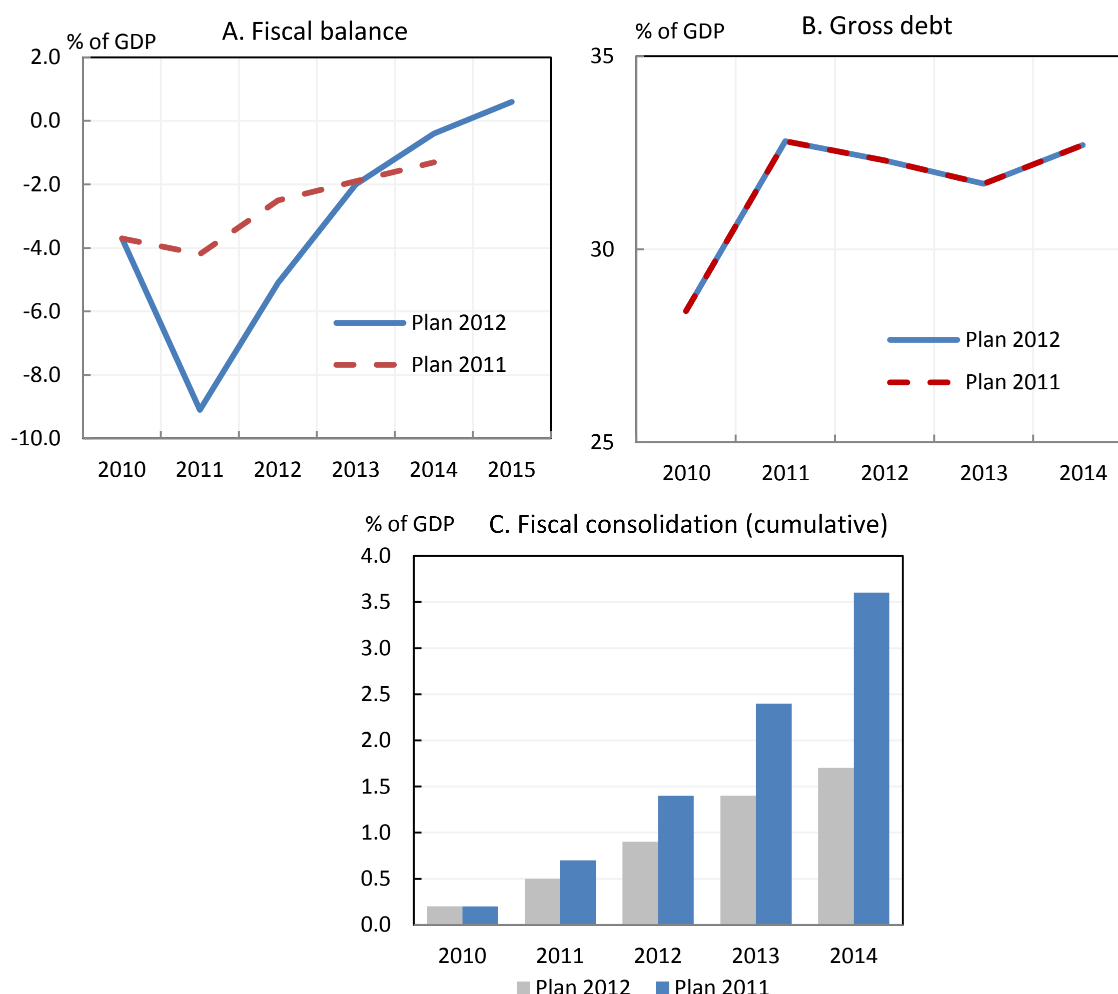
In 2009, the government presented a budget policy statement and a fiscal strategy report, announcing a targeted return to budgetary surplus by 2016. The government also set itself a non-binding commitment to return net debt to 20% of GDP by 2022.

To achieve these goals, the 2010 budget restrained the growth in government spending by capping the operating allowance on new spending at NZD 1.1 billion for FY 2010-11, with growth of only 2% in following years of the five-year budget horizon. Deficits were therefore expected to diminish over time as the projected growth in revenue exceeds that of expenditure (Figure 2A).

The 2011 budget forecast that the government will reach fiscal surplus by 2015 despite the negative fiscal shock of earthquakes in the Canterbury region (Figure 2A). To return to fiscal surplus one year earlier than under the previous plan, the 2011 budget reprioritised and reduced spending. The allowance for new discretionary expenditure (with expanded coverage) was to be frozen over FY 2011-12; the operating allowance would then be capped at NZD 800 million for the next two fiscal years, while the net capital allowance would remain at zero for all three years. The 2012 budget has confirmed these new spending allowances, and announced that capital investment over the next five years will be funded from the proceeds of partial privatisation of four state-owned energy companies and reductions in current government shareholdings in Air New Zealand, expected at NZD 5-7 billion.

Thanks to these spending limits and a revenue increase from expected economic growth, the government projects that the gross debt will stay around 32% of GDP in 2011-14 (Figure 2B) although the fiscal consolidation volume by 2015 is not as much as that of previously planned (Figure 2C).

Figure 2. The government's planned fiscal consolidation



Note: Fiscal balance is general government financial balance and gross debt is gross financial liabilities as a per cent of nominal GDP projected by the government.

Sources: "OECD Fiscal Consolidation Survey 2012" and "Restoring Public Finances" (OECD, 2011).

Table 1. The government's fiscal consolidation plan

	2010	2011	2012	2013	2014	2015
Fiscal consolidation volume and path, % of nominal GDP						
Total fiscal consolidation volume	0.2	0.5	0.9	1.4	1.7	
Fiscal balance, deficit (-)/ surplus (+)	-3.7	-9.1	-5.1	-2.0	-0.4	0.6
Gross debt	28.4	32.8	32.3	31.7	32.7	
GDP growth rate in per cent, year on year						
Nominal GDP growth forecasts	5.1	4.8	3.2	5.0		

Note: Nominal GDP growth forecasts are calculated by the OECD on the basis of government estimates of nominal GDP.

Sources: "OECD Fiscal Consolidation Survey 2012" and OECD calculations.

3. Major consolidation measures

The fiscal consolidation measures of New Zealand focus on tightening eligibility in the health and education sectors and welfare reform, reducing the tax credits in retirement savings, seeking efficiency gains, and privatisation.

Table 2. Major consolidation measures

Million NZD

		Budgetary impact
I. Expenditures		
A. Operational measures		
A1. Operating expenditures	Reduction in government operating allowances from 2011-14. 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.
B. Programme measures		
B1. Entitlement spending	Tightening of eligibility for welfare such as interest-free student loans.	n.a.
B2. Reductions in retirement savings contributions	Reductions in contributions to the retirement savings scheme (KiwiSaver).	2 600 (2011-14)
C. Other measures		
C1. Efficiency savings	Public sector agencies are required to make efficiency savings.	980 (2011-13)
II. Total revenue enhancement measures		
A. Mixed ownership model	Partial privatisation of state-owned assets.	5 000-7 000 (2012-17)
B. Property depreciation rates	Building depreciation rates are reduced to zero to help address the problem of over-investment in residential property.	n.a.

Source: "OECD Fiscal Consolidation Survey 2012".

4. Institutional reforms

The government has introduced essential changes in several areas of its fiscal institutional framework:

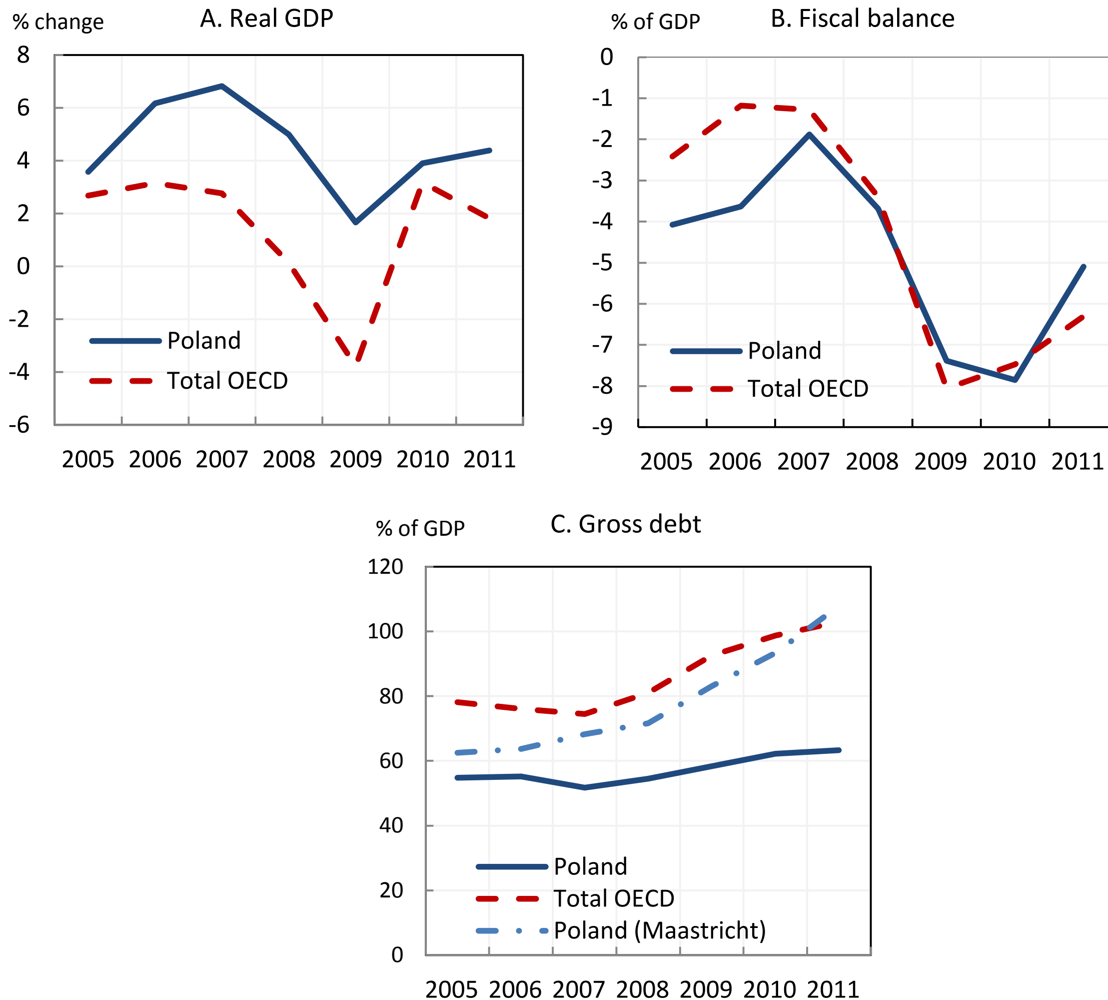
Medium-term expenditure frameworks	Four-year budget plans were required from departments from 2010. Approval was dependent on the ability of departments to manage within fixed or reduced baselines.

POLAND

1. Economic situation

Poland continued to demonstrate substantial economic growth in 2010 and 2011 by 3.9% and 4.4% respectively. Indeed, economic growth has exceeded the OECD average for a number of years, reflecting successful reforms, a massive inflow of EU funds, sound financial sector regulation, exchange rate flexibility, and the strong economic policy adopted in previous years (Figure 1A). In contrast, Poland's fiscal position has continued to deteriorate over the past few years with the 2010 budget deficit widening to 7.9% of GDP. The deficit was reduced to 5.1% in 2011, above the average of OECD countries (Figure 1B). Gross debt has been rising moderately since the pre-crisis level, to 63.3% of GDP in 2011, but remains well below the OECD average (Figure 1C). Poland's economic growth is projected by the OECD to slow noticeably in 2012 and 2013 due to a sharp fiscal retrenchment, the projected sharp slowdown in the euro area and a levelling off of the inflow of EU funds.

Figure 1. Key economic indicators



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

Source: OECD (2012), OECD Economic Outlook, Vol. 2012/1, OECD Publishing.

2. The government's fiscal consolidation plan

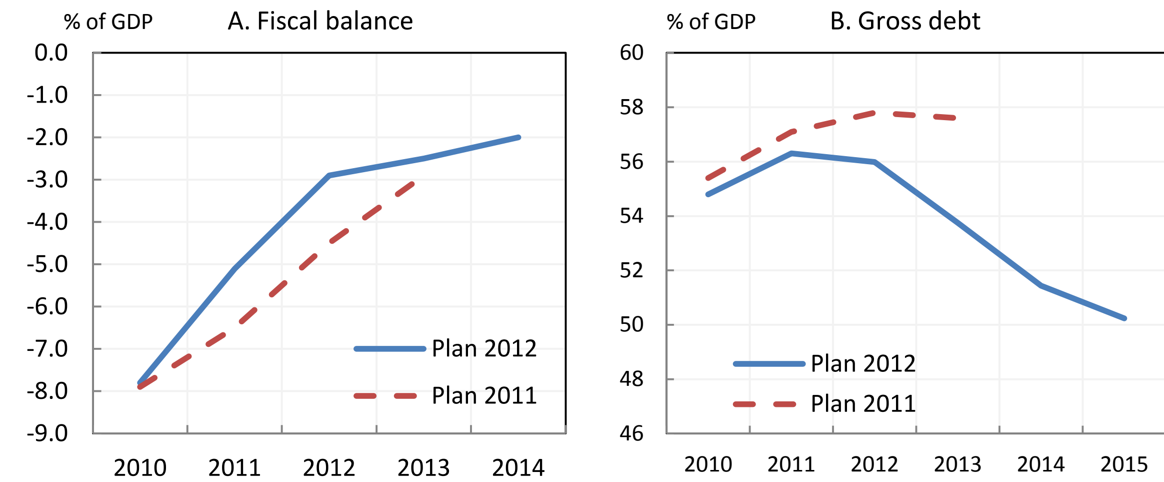
The main goal of Poland's medium-term budget strategy is to reduce the general government deficit below 3% of GDP in 2012 (targeted for 2013 last year), in line with the EU medium-term objective of a general government deficit of 1% of GDP by 2015. On 18 November 2011, after his re-election, the Polish Prime Minister presented new structural reforms with long-term stability effects, as well as a number of additional medium-term consolidation measures to be implemented as of 2012.

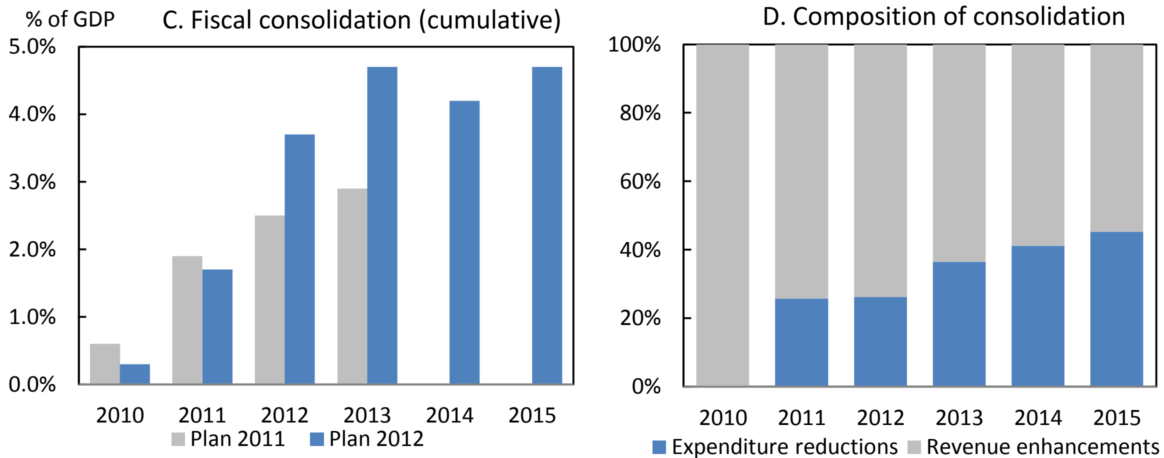
The government estimates an additional reduction in the central government fiscal deficit of 2011 by about 1% of GDP in comparison with the budget act and the data in "Restoring Public Finances" (OECD, 2011). The consolidation measures notably include a wage freeze at nominal level and increased revenues from the weakening of the second pension pillar. Besides the specific consolidation measures (see Section 3 below), several general elements contribute. First, all discretionary and new legally mandated spending is now subject to a temporary expenditure rule (CPI+1%). Second, a new regime preventing the government from approving laws that would increase expenditure on a wide range of social entitlements or reduce its revenue became fully operational this year. Third, public sector units now have legally binding cash limits over a ten-year horizon on new legally mandated spending. As a result, the government expects the general government deficit to reach 5.4% of GDP in 2011, in line with the target in the Convergence Programme update of April 2011, confirmed also in the October fiscal notification. In turn, this result will translate into an equivalent extra improvement in the balance in 2012 (Figure 2A).

The government foresees that the general government gross debt (a national definition that differs from the Maastricht basis as the national road fund and some infrastructure projects are excluded from the domestic definition of public debt) will decline steadily from the 2011 estimated peak, to 50% of GDP in 2015 (Figure 2B), though still above the pre-crisis level of 45-47% of GDP. A relatively front-loaded consolidation is envisaged, with the largest adjustments in 2011 and 2012, totalling 4.7% of the governments' projected nominal GDP by 2015 (Figure 2C). The composition of the consolidation, as measured by the split between expenditure and revenue, displays a full reliance on revenue enhancement measures in the beginning, shifting to a more important contribution of expenditure reduction measures at the end of the period (Figure 2D).

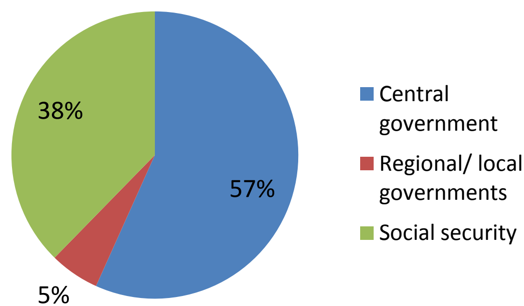
Central government and social security compose 95% of the consolidation volume (Figure 2E). All public sectors except defence and health are affected by the consolidation efforts. Though, according to the government, the expenditure cuts are of a minor character compared to the total expenditures of each sector (Figure 2F).

Figure 2. The government's planned fiscal consolidation





E. Consolidation by level of government



F. Sectors affected by fiscal consolidation

No expenditure cuts	Defence
	Health
Minor expenditure cuts	Economic affairs
	Education
	Environmental protection
	General public services
	Housing and community amenities
	Public order and safety
	Recreation, culture and religion
	Social protection

Notes: Fiscal balance is general government financial balance and gross debt is the consolidated gross debt of the public sector (a national definition that differs from the Maastricht basis as the national road fund and some infrastructure projects are excluded) as a per cent of nominal GDP projected by the government. Fiscal consolidation is the cumulative consolidation volume as a per cent of nominal GDP projected by the government. The composition of consolidation is expenditure reductions and revenue enhancements in the actual year (cumulative, total 100%). The consolidation by level of government is the fiscal consolidation volume at an annual average by level of government. Data concerning "Plan 2012" include implemented consolidation efforts in 2010 and 2011.

Sources: "OECD Fiscal Consolidation Survey 2012" and "Restoring Public Finances" (OECD, 2011).

Table 1. The government's fiscal consolidation plan

	2010	2011	2012	2013	2014	2015
Fiscal consolidation volume and path, % of nominal GDP						
Total fiscal consolidation volume	0.3%	1.7%	3.7%	4.7%	4.2%	4.7%
Fiscal balance, deficit (-)/ surplus (+)	-7.8%	-5.1%	-2.9%	-2.5%	-2.0%	
Gross debt	54.8	56.3	56.0	53.7	51.4	50.2
GDP growth rate in per cent, year on year						
Nominal GDP growth forecasts	5.4%	6.8%	5.1%	6.0%	6.3%	6.4%
Fiscal consolidation through expenditure reductions and/or revenue enhancements (total = 100%)						
Expenditure reductions	0.0%	25.7%	26.2%	36.5%	41.1%	45.3%
Revenue enhancements	100.0%	74.3%	73.8%	63.5%	58.9%	54.7%
Fiscal consolidation, million PLN						
Expenditure reductions	-	6.6	15.4	28.9	30.9	40.6
Revenue enhancements	4.2	19.1	43.4	50.3	44.3	49.0
Total consolidation	4.2	25.7	58.8	79.2	75.2	89.6

Notes: Nominal GDP growth forecasts are government estimates. Fiscal consolidation in the national currency is calculated by the OECD based on government estimates of consolidation volume in per cent of GDP.

Sources: "OECD Fiscal Consolidation Survey 2012" and OECD calculations.

3. Major consolidation measures

According to the government, the consolidation measures that contribute the most are cuts in operational expenditures forced by the temporary expenditure rule and ceiling on new spending, where the wage freeze is an important measure. These expenditure measures contribute by PLN 25.5 billion by 2015. The abolishing of early retirement scheme and the increase of retirement thresholds (PLN 9.4 billion by

2015) might also contribute substantially. The final impact will depend on the new pension bill which is planned to be passed in late April 2012.

Changes to the funded pension scheme constitute the highest contribution of revenue enhancements (PLN 17.8 billion by 2015). The social contribution rate applicable to the second pillar was decreased from 7.3% to 2.3% of gross salaries, leading to increased government revenue.

A major source of additional revenue will be the increase in the disability insurance contribution paid by employers, which is to rise by 2 percentage points to 6.5% with effect from February 2012. It will thus be brought back to the level of before 2008. The government expects this change to bring PLN 6 billion extra net revenue in 2012 and an additional PLN 1.6 billion in 2013. A further increase in revenue is planned from dividends from state-owned shares in companies; the government expects PLN 8.15 billion in 2012.

Table 2. Major consolidation measures

Millions PLN (% of nominal GDP)

		2010	2011	2012	2013	2014	2015
I. Expenditures		**0.00**	**6.55**	**15.37**	**28.82**	**31.10**	**40.35**
	Per cent of nominal GDP	*0.0%*	*0.4%*	*1.0%*	*1.7%*	*1.7%*	*2.1%*
A. Operational measures		**0.00**	**4.20**	**7.01**	**12.17**	**18.56**	**25.52**
	Per cent of nominal GDP	*0.0%*	*0.3%*	*0.4%*	*0.7%*	*1.0%*	*1.3%*
A1. Staff expenditure	Compensation increase for the army and police forces.			-0.20	-0.41	-0.42	-0.44
A2. Operating expenditures	Temporary expenditure rule (including a freeze of the nominal wage fund) and ceiling on new legally mandated spending.		3.95	6.17	10.44	15.74	21.64
	Reduction in debt-servicing cost due to changes to the funded pension scheme.		0.25	1.04	2.14	3.24	4.32
B. Programme measures		**0.00**	2.35	8.36	16.65	12.54	14.83
	Per cent of nominal GDP	*0.0%*	*0.2%*	*0.5%*	*1.0%*	*0.7%*	*0.8%*
B1. Pension expenditure	Suspension of pension benefits for persons employed.		0.89	0.89	0.89	0.89	0.89
	Implemented abolition of early retirement scheme.		0.60	6.30	12.10	6.38	6.70
	Increase and equalisation of retirement age to 67 years.				0.53	1.58	2.71
B2. Health insurance	Reforming health insurance premium for farmers.			0.14	1.80	1.86	1.86
B3. Social benefits	Reduction in funeral benefits.		0.86	1.03	1.33	1.83	2.67
II. Total revenue enhancement measures		**3.73**	**18.91**	**43.28**	**50.06**	**44.54**	**48.64**
	Per cent of nominal GDP	*0.3%*	*1.3%*	*2.7%*	*3.0%*	*2.5%*	*2.6%*
A. Personal income taxes	Freeze of thresholds	1.03	2.23	3.63	4.93	6.53	8.43
	Changes in the personal income tax on capital profits			0.29	0.30	0.32	0.34
	Reduction in tax expenditure				-0.28	0.10	0.11
C. Value-added tax	An increase of the VAT rate		6.06	6.97	7.21		
	Abolition of VAT reimbursements for company cars and fuel		0.80	1.30	1.33		
D. Excise duties	Increase in excise duty on tobacco (4% in each year)	0.82	0.25	0.53	0.79	1.06	1.34
	Increase in excise duty on fuel and in fuel fees	1.88	0.10	2.35	2.49	2.65	2.82
	Abolition of reduced excise duty on bio-fuels		1.00	1.60	1.70	1.80	1.92
	Expiration of the period of exemption from the excise duty tax on coal and coke for combustion purposes			0.15	0.16	0.16	0.17
E. Social contribution	Higher disability contribution rate paid by employers: increase by 2 percentage points (effective from February 2012)			6.03	7.59	8.05	8.55
	Changes to the funded pension scheme		8.47	16.78	17.65	17.28	17.83
F. Implementing a royalty charge on copper and silver				1.80	2.17	2.12	2.12

	2010	2011	2012	2013	2014	2015
G. Newly introduced road speed limit enforcement system			1.20	1.10	1.00	1.00
H. Revenues from the CO^2 emission rights auction			0.65	2.85	3.10	3.41
I. Increase and equalisation of the retirement age for men and women to 67 years (from present levels of 65 and 60 years, respectively)				0.07	0.37	0.60

Notes: The percentage of nominal GDP is calculated by the OECD, based on the government's GDP forecasts.

Source: "OECD Fiscal Consolidation Survey 2012".

Pension

Among the structural reforms that are intended to substantially improve the long-term sustainability of Polish public finances, the most important is the increase and equalisation of the retirement age for men and women at 67 years (from present levels of 65 and 60 years respectively). This reform will be phased in starting in 2013 and ending in 2020 for men and in 2040 for women. The government expects that budgetary savings will increase from PLN 0.2 billion in 2013 to PLN 1.9 billion in 2014 and PLN 3.8 billion in 2015. However, the final impact will depend on the new pension bill. According to latest press news, an important "early retirement" element will be introduced, which will substantially reduce the gains.

4. Institutional reforms

The long-term stability of public finances in Poland will be enhanced by a new permanent fiscal rule. A draft law defining the permanent fiscal rule will be prepared, with a view to introducing it by 2013, as recommended by the European Council in its opinion on the Polish Convergence Programme, update of April 2011. This rule will aim at stabilising the general government fiscal balance at -1% of GDP over the medium-term, by limiting the growth of expenditure. Moreover, the rule will provide a stable link with debt aggregates in order to anchor sustainability.

Long-term projections	New draft legislation adopted by the government presents maximum financial impact for public sector entities for a period of ten years. Moreover, new regulations will have to include one or more corrective mechanisms that enable limiting the amount of expenditures in case of exceeding (or expected risk of exceeding) the level of financial impact which was determined for a given budget year. The "Local Government Multiannual Financial Forecast" contains basic forecast for main items of local government budgets for the budgetary year and at least the three following years (since FY 2011).
Fiscal rules	The new Public Finance Act introduced changes in the following areas: The new temporary expenditure rule, binding as of 2011, is intended to limit the growth rate of discretionary and new legally mandated expenditure. Any proposed new act may not cause an increase in such expenditures by more than 1% annually in real terms. The temporary expenditure rule shall be binding until the European Council (ECOFIN) abrogates the excessive deficit procedure for Poland. The prudential and remedial procedures in the state budget are to be activated when the thresholds are exceeded (the thresholds are based on the public debt-to-GDP ratio, approaching the constitutional limit of 60%). The new rules for local governments concerning the current surplus requirement (since FY 2011); individual debt service limit (principal plus interest) is based on the historical ability to create a current surplus (by FY 2014).
Medium-term expenditure frameworks	The "Multi-State Financial Plan", introduced at the beginning of 2010, provides a forecast of budget revenues and expenditure. The plan is prepared on a four-year perspective and combines strategic planning with the allocation of public funds in the budget formulation for the next financial year.
Expenditure ceilings or forecasts	The temporary expenditure rule limits the growth rate of flexible expenditures and all new fixed expenditure to CPI plus 1%.
Legal basis of the framework	The Public Finance Act of 27 August 2009 and its amendment to the law of 16 December 2010.

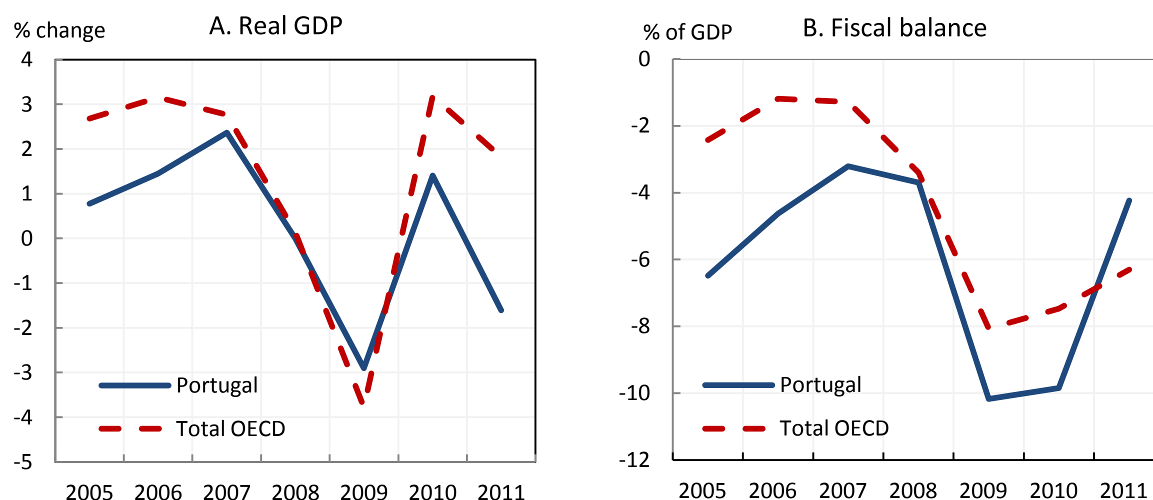
PORTUGAL

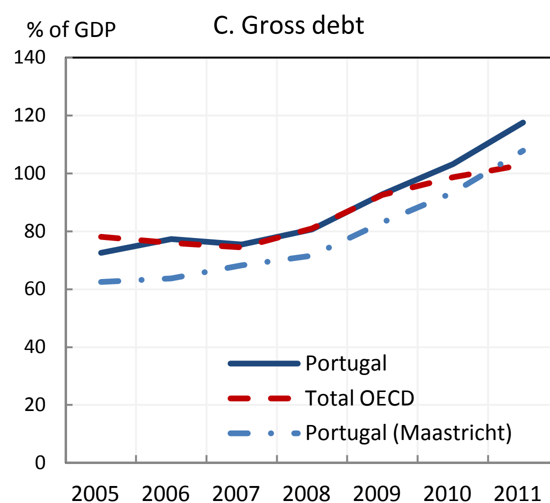
1. Economic situation

After a subdued recovery in 2010, the Portuguese economy contracted again in 2011 despite robust export growth. The falling GDP was driven by a contraction of domestic demand of unprecedented magnitude following the strict fiscal consolidation and bank deleveraging path in an effort to reduce macroeconomic and fiscal imbalances in line with agreements with the European Commission (EC), the European Central Bank (ECB) and the IMF. The economy is expected to contract further through 2012, due to necessary fiscal consolidation, deleveraging and a marked slowdown in external demand (Figure 1A). Long-standing fragilities in the fiscal framework were again exposed by an upward revision of the 2010 deficit to 9.8% of GDP (from 9.2%), mainly due to previously unrecorded expenditure by the Madeira regional administration and, to a smaller extent, to health-care spending. The fiscal deficit improved to 4.2% of GDP in 2011 owing both to fiscal consolidation and significant one-off revenues (Figure 1B). The continuing excessive fiscal deficits add to the government gross debt that reached 117.6% of GDP in 2011, considerably higher than in most OECD countries (Figure 1C).

The OECD expects that the Portuguese economy will gradually recover as from mid-2013, mainly supported by exports.

Figure 1. Key economic indicators





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

Source: OECD (2012), OECD Economic Outlook, Vol. 2012/1, OECD Publishing.

2. The government's fiscal consolidation plan

Following elections in June 2011, Portugal's new government has been working to implement the measures agreed as part of the EUR 78 billion international package (the Economic Adjustment Programme) agreed with the EC, the ECB, and the IMF in May 2011. The programme covers most of the financing needs of general government for the period 2011 to mid-2014. The economic adjustment programme includes:

- structural reforms to boost potential growth, create jobs, and improve competitiveness, directed mainly towards the labour market, the judicial system, network industries, and the housing and services sectors;
- a fiscal consolidation strategy, supported by structural fiscal measures and better fiscal control over public-private-partnerships and state-owned enterprises;
- a financial sector strategy based on recapitalisation and deleveraging.

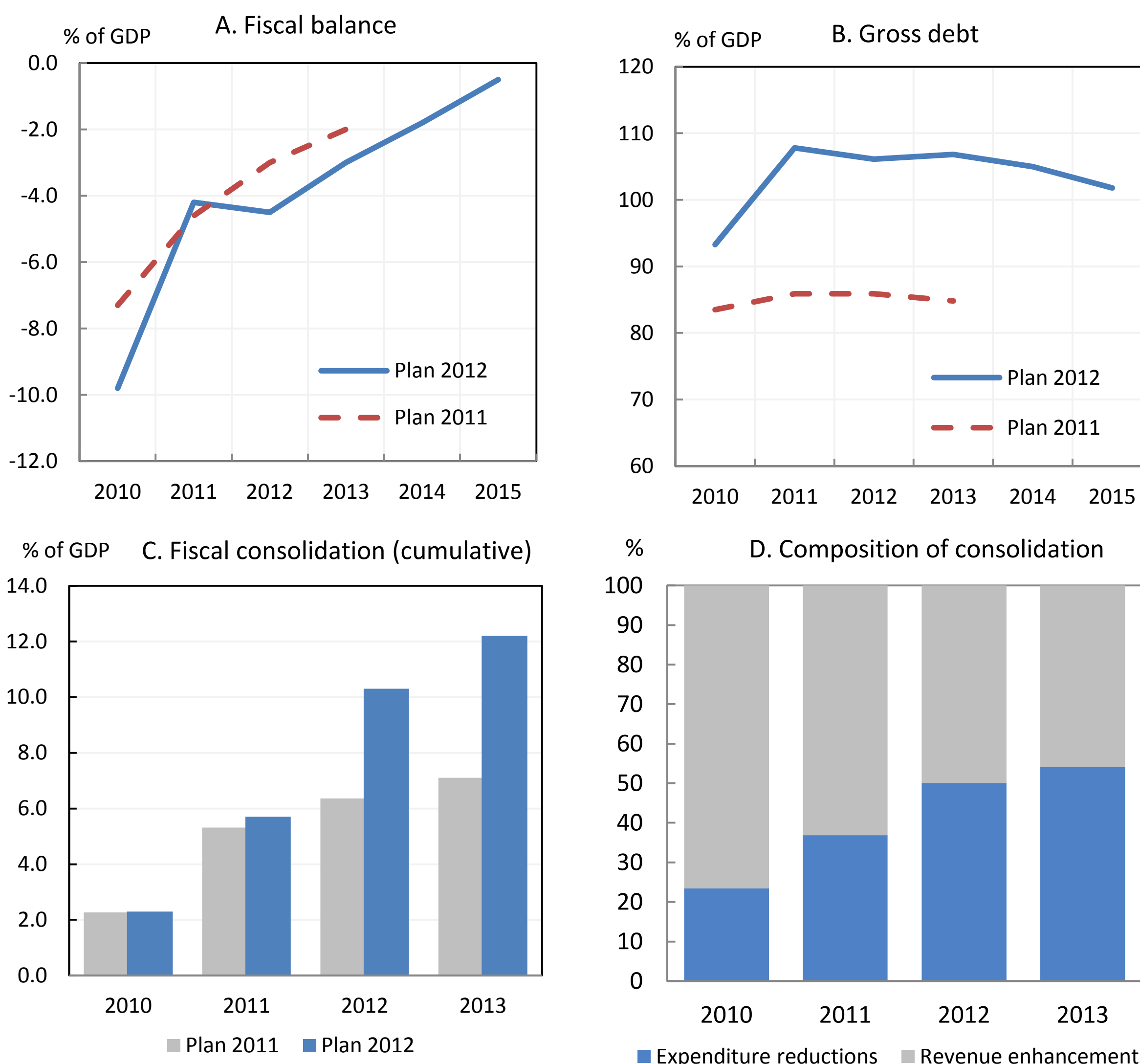
After the third review (completed on 28 February 2012), the programme implementation was on track.

The government sets forth its major lines for medium-term fiscal consolidation of the Portuguese economy in the *Fiscal Strategy Document* of August 2011, which was updated on 30 April 2012 (after deadline of this note), including a scenario of public finances for the next four years, consistent with the objectives defined in the Economic Adjustment Programme. As the economic environment deteriorated and the statistical re-classifications shifted the fiscal deficit up, it became increasingly evident that the government deficit objectives for 2011 and 2012 were no longer realistic, leading to a revised fiscal adjustment path with an objective of reducing the budget deficit to 3% of GDP in 2013 – one year later than the original objective described in OECD (2011). This path is in line with the Council of Economics and Finance Ministers in the EU (the ECOFIN Council) Recommendations under the excessive deficit procedure. The government now expects the fiscal deficit to be 0.5% of GDP in 2015 (Figure 2A).

Portugal has recorded low economic growth and a weak performance in terms of productivity growth over the last decade, and an imprudent fiscal policy has resulted in excessive public sector indebtedness. The general government gross debt (Maastricht basis) is expected to peak in 2013 at 106.8% of GDP, substantially higher than reported in "Restoring Public Finances" (OECD, 2011) (Figure 2B).

The *Fiscal Strategy Document* sets out an ambitious programme of fiscal consolidation measures, strengthening those already set forth in the budget for 2011. The overall impact in 2011 is estimated by the Ministry of Finance at 5.7% of GDP against a no-policy-change scenario, and the cumulative impact in 2013 is estimated at 12.2% of GDP (Figure 2C). The composition of the consolidation measures is a roughly balanced situation of expenditure cuts and revenue enhancement measures in 2013, starting with a focus on the revenue side. For 2012-13, the new consolidation measures are broad-based, mostly concentrating on the expenditure side (Figure 2D).

Figure 2. The government's planned fiscal consolidation



Notes: Fiscal balance is general government financial balance and gross debt is gross financial liabilities (Maastricht basis) as a per cent of nominal GDP projected by the government. Fiscal consolidation is cumulative consolidation volume as a per cent of nominal GDP projected by the government. The composition of consolidation is expenditure

reductions and revenue enhancements in the actual year (cumulative, total 100%). Data concerning "Plan 2012" includes implemented consolidation efforts in 2010 and 2011.

Sources: "OECD Fiscal Consolidation Survey 2012", *Fiscal Strategy Document 2011-15* (Ministry of Finance, Portugal, 2011) and "Restoring Public Finances" (OECD, 2011).

Table 1. The government's fiscal consolidation plan

	2010	2011	2012	2013	2014	2015
Fiscal consolidation volume and path, % of nominal GDP						
Total fiscal consolidation volume	2.3	5.7	10.3	12.2		
Fiscal balance, deficit (-)/ surplus (+)	-9.8	-4.2	-4.5	-3.0	-1.8	*-0.5*
Gross debt	93.3	107.8	106.1	106.8	105.0	*101.8*
GDP growth rate in per cent, year on year						
Nominal GDP growth forecasts	1.3%	-2.2%	-1.8%	1.2%	2.5%	2.2%
Fiscal consolidation through expenditure reductions and/or revenue enhancements (total = 100%)						
Expenditure reductions	*23.5*	*36.9*	*50.1*	*54.1*		
Revenue enhancements	*76.5*	*63.1*	*49.9*	*45.9*		
Fiscal consolidation, million EUR						
Expenditure reductions	931	3 552	8 557	11 086		
Revenue enhancements	*3 040*	*6 074*	*8 523*	*9 388*		
Total consolidation	3 971	9 626	17 081	20 474		

Notes: Fiscal consolidation data for 2010-11 are based on "Restoring Public Finances" (OECD, 2011), while data for 2012-13 are based on *Fiscal Strategy Document 2011-15*, Ministry of Finance, Portugal. Fiscal consolidation in the national currency is calculated by the OECD based on government estimates of consolidation volume in per cent of GDP.

Sources: "OECD Fiscal Consolidation Survey 2012", *Fiscal Strategy Document 2011-15* (Ministry of Finance, Portugal, 2011), "Restoring Public Finances" (OECD, 2011), and OECD calculations.

3. Major consolidation measures

Portugal has introduced wide-ranging expenditure reductions and revenue enhancement measures (Table 2). On the expenditure side, these measures encompass the items that have the highest weight in the general government account: compensation of employees and social transfers. Revenue increases target consumption and aim at reducing tax distortions. Compared to income tax hikes, consumption tax increases avoid a direct increase in production costs and thereby protect the competitive position of the economy. Moreover, the design of income tax increases tries to protect the most vulnerable segments of the population. The measures that contribute the most concentrate on higher consumption tax revenues by increasing excise rates and broadening the VAT base, and broadening the base of corporate and personal income taxes.

Table 2. Major consolidation measures

Percentage of GDP (if not stated otherwise)

		2010	2011	2012	2013
I. Expenditures (million EUR)		915	5 757	7 388	3 292
	% of nominal GDP	*0.5*	*2.3*	*5.3*	*6.7*
A. Operational measures (million EUR)		311	1 621	3 416	4 464
	% of nominal GDP	*0.2*	*1.0*	*2.1*	*2.7*
A1. Compensation of employees	Wage restraints and freezing of civil service recruitment (average cut of 5% in government wages in 2011, and real freezing 2012-13).	0.1	0.4	0.6	0.8
	Reductions in the number of hired ("two out, one in") in central, regional and local governments, as well as specific sectoral measures of reductions of staff.			0.2	0.2
A2. Intermediate consumption expenditure		0.1	0.3	0.3	0.3
	Additional measures introduced in March 2011.		0.3	0.3	0.3
	Rationalisation of services and control of operating expenditure in general government.			0.4	0.7
	Deepening of the school network rationalisation and increase in efficiency of supply.			0.2	0.3
	Cost reduction in state-owned enterprises.			0.1	0.1
B. Programme measures (million EUR)		604	2 212	5 323	6 730
	% of nominal GDP	*0.4*	*1.3*	*3.2*	*4.0*
B1. Social transfers	Definition of ceilings for the non-contributory social security schemes.	0.1	0.3	0.3	0.3
	Special contribution for pensions above EUR 1 500 with rules similar to the reduction of wages in the public administration, in 2011.			0.2	0.2
	Suspension of the rule of pension indexation, except for the update of lower pensions.			0.4	0.4
	Savings in the social benefits through reinforcement of means testing condition and other eligibility rules.			0.1	0.2
B2. Social transfers in kind	Control of health expenditure.	0.0	0.2	0.2	0.2
	Reduction in public expenditure in the health system, in the areas of medicine policy, user fees, public health systems and plans for hospital restructuring.			0.5	0.8
	Other social expenditures.	0.0	0.0	0.0	0.0

B3. Subsidies	Reduction of the transfers for the state-owned enterprises.	0.1	0.1	0.1	0.1
	Cost reduction in state-owned enterprise and in autonomous services and funds: revision of the compensatory damages and operational costs.			0.1	0.2
B4. Other current expenditure	Reduction in transfers to other subsectors of general government.			0.1	0.1
	Reduction of social non-contributory benefits.			0.0	0.1
B5. Investments	Postponing the Lisbon-Porto and Porto-Vigo high-speed rail links and commitment to no new road infrastructure.	0.2	0.7	0.7	0.7
	Reduction in capital expenditure.			0.2	0.4
	Reduction in transfers to local and regional governments.			0.1	0.1
	Cost reduction in state-owned enterprises.			0.2	0.2
II. Total revenue enhancement measures (million EUR)		2 987	5 775	8 258	9 096
	% of nominal GDP	*1.7*	*3.4*	*5.0*	*5.4*
A. Tax on income and wealth	Revision and limitation of tax allowances and other tax benefits both in personal income tax and company income tax.	0.0	0.5	0.8	1.1
	Personal income tax surcharge on 13th salary (measure implemented in 2011).			0.1	0.1
B. Tax on production and import	Raising VAT rates by 2 percentage points on 1 January 2011, additional taxation on the personal income and corporate income, broadening social security contributions, levy to the financial system.	0.6	1.5	1.5	1.5
	Rationalisation of VAT structure, including the change in VAT on electricity and gas.			0.7	0.7
	Update of excise taxes.			0.1	0.2
	Substantial reduction in tax allowances of the municipal property tax.			0.1	0.2
	Reinforcement of the fight against tax fraud and evasion.			0.1	0.1
C. Non-tax revenues	Introduction of tolls in motorways.	0.0	0.1	0.1	0.1
	Increase in the European Union financing of projects in the education sector.			0.1	0.1
D. Transfer of Portugal Telecom's pension plans to the government		1.1	1.4	1.4	1.4

Note: The percentage of nominal GDP is calculated by the government.

Sources: "Restoring Public Finances" (OECD, 2011) and *Fiscal Strategy Document 2011-15* (Ministry of Finance, Portugal, 2011).

4. Institutional reforms

The government has introduced essential changes in several areas of its fiscal institutional framework:

Fiscal council/ economic forecasts	A fiscal council, the Council on Public Finances (*Conselho das Finanças Públicas*), was established with a mandate to report on the objectives and budget scenarios, the sustainability of public finances and compliance with the rules on budgetary balance, central government expenditure, and the indebtedness of the autonomous regions and local authorities (enshrined in the respective financing laws). The statutes of the fiscal council were approved on 8 September 2011 and entered into force on 20 October 2011 (Law 54/2011, 19 October). Board members took office in early 2012.
Medium-term expenditure frameworks	The Budgetary Framework Law and its implementation strategy (Law No. 64-C/2011, 30 December) require that the government submits annually (in April) to the Parliament the multi-year budget programming framework which defines, for the central government, spending limits financed by general revenues for the next four years, in line with the Stability and Growth Programme that shall be submitted annually to the European Commission. The government has created a working group in the Budget Directorate (DGO) of the Ministry of Finance whose purpose is, on the one hand, the development of a conceptual design proposal and, on the other hand, its implementation.
Expenditure ceilings or forecasts	The multi-year budget programming framework for 2013-16 will set limits on spending funded by general revenue: ▪ for the whole central government and each of its budget programmes for the first year – in this case, 2013; ▪ for the grouping of programmes by policy areas for 2014; ▪ for the set of all programmes for years 2015 and 2016.
Performance	The preparation of the state budget by programmes has already been tested in 2011 and it will be consolidated in 2012. There will be 14 budget programmes, each corresponding to a single implementing ministry (Source: *Fiscal Strategy Document* 2011, p. 42f).
Budget execution practices	A qualitatively different system of budget control will be established in 2012, based on a forecast approach that allows quick identification of any need for corrective measures by the authorities responsible for the control. The system is based on: ▪ a monthly forecast of expenditure and own revenues of the respective budget programme, to allow the anticipation of problems and solutions; ▪ the commitments control which does not allow expenditures to exceed available funds within the area of governance, but with automatic transition of revenue balances; ▪ funds made available in twelfths of the annual budget appropriation; ▪ the responsibility of each area of governance, including making the ministries more accountable for their budget execution. Monthly control is structured on three levels: co-ordinators of the budget programmes, secretaries of state, and the Council of Ministers.
Legal basis of the	Budgetary Framework Law (Law No. 52/2011, 13 October) and the respective

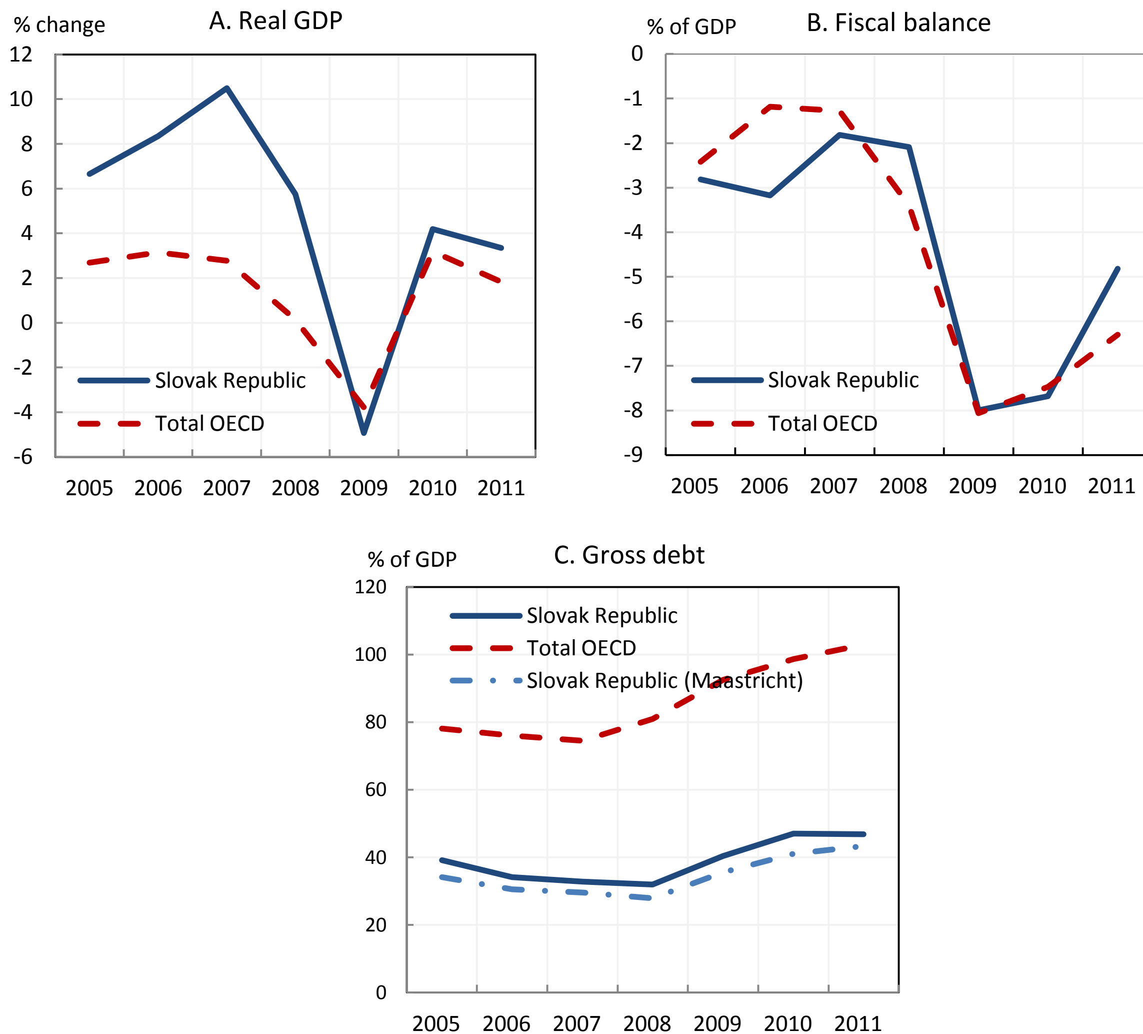
framework	implementation strategy (Law No. 64-C/2011, 30 December).

SLOVAK REPUBLIC

1. Economic situation

The export-driven recovery of the Slovak economy has slowed in 2011 as growth in export markets has weakened and the euro area sovereign debt crisis has undermined the business climate, leaving the growth rate at 3.3% of GDP in 2011, far below the pre-crisis average (Figure 1A). The fiscal deficit at 7.7% of GDP in 2010 was among the highest in the euro area. The deficit improved to 4.8% of GDP in 2011 due to fiscal consolidation and export-led economic growth (Figure 1B). Following the substantial deficits, the gross debt has continued to increase in recent years, to 46.8% in 2011, though still below the EU threshold and substantially lower than the OECD average (Figure 1C). The OECD expects that the Slovak economy should slow down in 2012 and then recover with the improvement of the global environment and a pick-up in both exports and investment.

Figure 1. Key economic indicators



Note: Fiscal balance is general government financial balance and gross debt is general government gross financial liabilities as a per cent of nominal GDP.
Source: OECD (2012), OECD Economic Outlook, Vol. 2012/1, OECD Publishing.

2. The government's fiscal consolidation plan

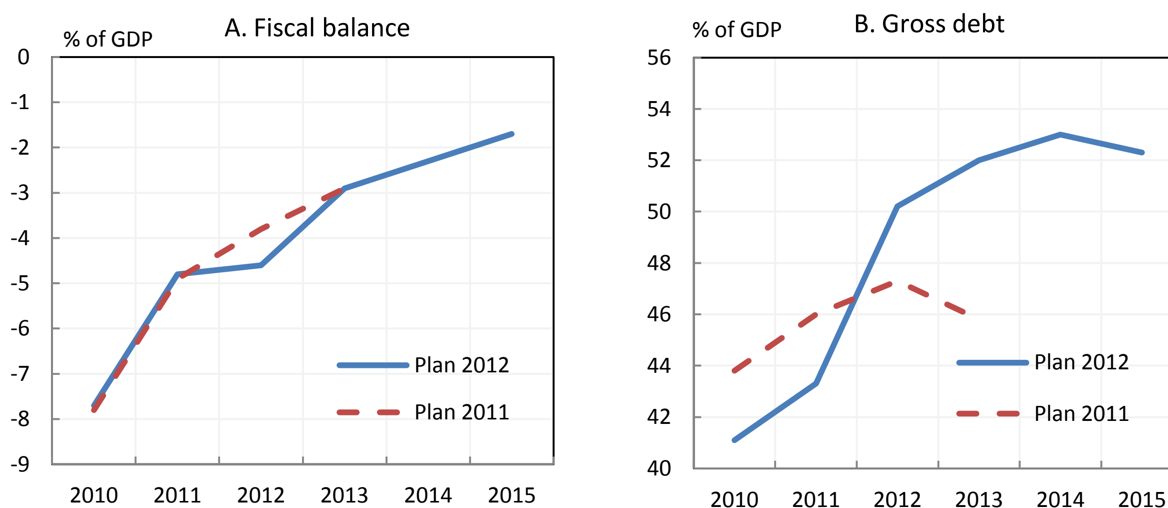
The four-party centre-right coalition government led by Iveta Radicova fell in October 2011 after less than two years in office. An interim government was in office until elections in March 2012 when Robert Fico's social-democratic party won a majority in the parliament. The caretaker, interim government had limited power, and the parliament adopted the budget act 2012 without reforms, leading to a projected fiscal deficit of 4.6% of GDP in 2012 compared to the target of 3.8% in the consolidation plan. Nevertheless, the fiscal consolidation target for 2013 remains unchanged, reflecting a wide political agreement on further fiscal consolidation. Against this background, the new government has confirmed to target a fiscal deficit of 2.9% of GDP in 2013 in order to comply with the requirements of the excessive deficit procedure under EU rules. This consolidation effort will have to be significant, not least because of the unfavourable cyclical situation.

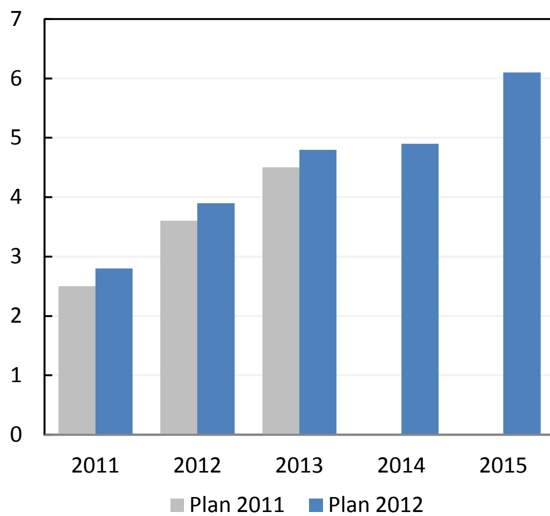
The general government deficit decreased to 4.8% of GDP in 2011, below the initial plan of the government (Figure 2A). This improvement was mainly due to consolidation measures and was partly offset by the inclusion of debt accumulated by public hospitals and railway companies in the deficit (one-offs amounting to 0.9% of GDP). However, the government now expects that the gross debt (Maastricht basis) will continue to rise in the medium term, to 53% of GDP in 2014, while the estimates last year showed the debt to peak in 2012, mainly due to contribution to the European Financial Stabilisation Mechanism (EFSM) and the European Stability Mechanism (ESM) (Figure 2B).

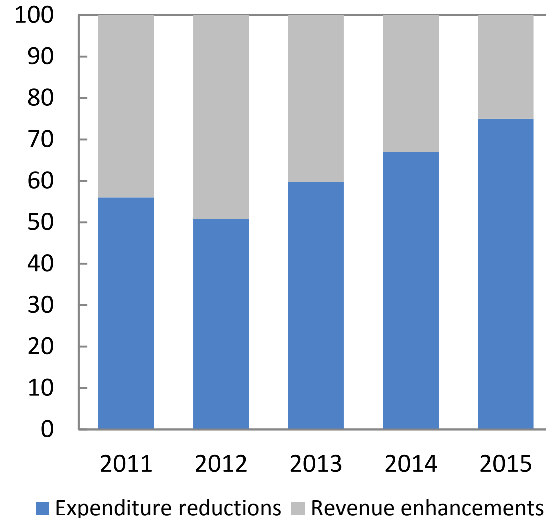
Figure 2C displays the cumulative consolidation efforts according to the government's consolidation plan including new measures in 2012 and measure estimates for 2013-15. The measures implemented in 2011 were roughly an equal mix of expenditure reductions and revenue enhancements. The cumulative impact of the measures will be three-quarters on the expenditure side and one-quarter on revenue enhancement measures (Figure 1D).

The previous government planned to implement the transit infrastructure projects mainly through EU funds instead of through public-private partnerships (PPPs). The new government is expected to re-introduce PPP projects for motorway construction. These projects may contribute to economic growth during times of consolidation.

Figure 2. The government's planned fiscal consolidation







Notes: Fiscal balance is general government financial balance and gross debt is gross financial liabilities (Maastricht basis) as a per cent of nominal GDP projected by the government. Fiscal consolidation is the cumulative consolidation volume as a per cent of nominal GDP projected by the government. The composition of consolidation is expenditure reductions and revenue enhancements in the actual year (cumulative, total 100%). Data concerning "Plan 2012" includes implemented consolidation efforts in 2010 and 2011.

Sources: "OECD Fiscal Consolidation Survey 2012", "Stability Programme 2012" (Ministry of Finance, 2012) and "Restoring Public Finances" (OECD, 2011).

Table 1. The previous government's fiscal consolidation plan

	2010	2011	2012	2013	2014	2015
Fiscal consolidation volume and path, % of nominal GDP						
Total fiscal consolidation volume		2.8	3.9	4.8	4.9	6.1
Fiscal balance, deficit (-)/ surplus (+)	-7.7	-4.8	-4.6	-2.9	-2.3	-1.7
Gross debt	41.1	43.3	50.2	52.0	53.0	52.3
GDP growth rate in per cent, year on year						
Nominal GDP growth forecasts	4.8%	4.8%	1.1%	2.7%	3.6%	3.7%
Fiscal consolidation through expenditure reductions and/or revenue enhancements (total = 100%)						
Expenditure reductions		56%	51%	60%	67%	75%
Revenue enhancements		44%	49%	40%	33%	25%
Fiscal consolidation, million EUR						
Expenditure reductions		1 083	1 383	2 057	2 436	3 547
Revenue enhancements		851	1 340	1 384	1 203	1 182
Total consolidation		1 934	2 723	3 442	3 640	4 729

Notes: Nominal GDP growth forecasts are the government's GDP estimates. Fiscal consolidation in the national currency is calculated by the OECD based on government estimates of consolidation volume in per cent of GDP.

Sources: "OECD Fiscal Consolidation Survey 2012", "Stability Programme 2012" (Ministry of Finance, 2012) and OECD calculations.

3. Major consolidation measures

Table 2 shows the adopted measures as published in OECD (2011) for 2011 and as published in the Stability Programme 2012 for 2012-15.

Table 2. Major consolidation measures

Million EUR

		2011	2012	2013	2014	2015
I. Expenditures		715.2	**1 140.2**	**1 642.1**	**2 236.3**	**3 314.7**
	% of nominal GDP	*1.0%*	*1.6%*	*2.3%*	*3.0%*	*4.3%*
A. Operational measures		**243.2**	**509.2**	**724.3**	**947.1**	**1 332.3**
	% of nominal GDP	*0.4%*	*0.7%*	*1.0%*	*1.3%*	*1.7%*
A1. Staff expenditure	10% cut in the state wage bill.	119.0	198.0	269.7	418.3	726.4
A2. Operational expenditures	10% cut for operational costs of most government offices.	124.2	311.2	454.6	528.9	605.9
B. Programme measures		**326.0**	***494.0***	***924.2***	***1 221.3***	***1 606.5***
	% of nominal GDP	*0.5%*	*0.7%*	*1.3%*	*1.6%*	*2.1%*
B1. Investments	Decrease in investment expenditure.	179.2	253.2	396.6	545.2	699.2
B2. Subsidies	Reduction of national subsidy for agriculture.	61.8	43.8	43.8	43.8	43.8
B3. Transfers	Health-care insurance payments for state policy holders.	85.0	85.0	85.0	85.0	85.0
	Savings in local government expenditure due to changes in the local governments' share of income tax revenues and other changes (the share of income tax revenue will decline from the previous level of 70.3% to 64.5% for local governments and from 23.5% to 21.9% for self-governing regions).		112.0	398.8	547.4	778.4
C. Other measures		**146.0**	**137.0**	**-6.4**	**67.9**	**376.0**
	% of nominal GDP	*0.2%*	*0.2%*	*0.0%*	*0.1%*	*0.5%*
C1. Reserves	Decrease in reserves allocation.	17.4	17.4	17.4	17.4	17.4
C2. State funds	Decrease in expenditures.	128.6	128.6	128.6	128.6	128.6
C3. Other			-9.0	-152.4	-78.1	230.0
II. Total revenue enhancement measures		**799.7**	**1 104.7**	**1 104.7**	**1 104.7**	**1 104.7**
	% of nominal GDP	*1.2%*	*1.6%*	*1.5%*	*1.5%*	*1.4%*
A. Value-added tax	Increasing the VAT rate from 19% to 20%.	185.5	185.5	185.5	185.5	185.5
B. Income taxes	Broadening the base of income taxes.	71.3	71.3	71.3	71.3	71.3
	Corporate income tax – mainly		46.0	46.0	46.0	46.0

		2011	2012	2013	2014	2015
	changes to the depreciation of assets.					
	Special levy on financial institutions (net effect).		83.0	83.0	83.0	83.0

C. Social security contributions	Broadening the base of social security contributions.	149.2	149.2	149.2	149.2	149.2
	Contributions into the second pillar pension system		-15.0	-15.0	-15.0	-15.0
D. Excise duties	Increasing the excise on tobacco.	15.9	45.9	45.9	45.9	45.9
E. Tax expenditures	Phasing out of exemptions for bio fuels, for fuels used in the agriculture and railway sectors, and for natural gas and coal.	103.7	133.7	133.7	133.7	133.7
F. Tax on CO^2 emission permits	Temporary in 2011 and 2012.	75.0	105.0	105.0	105.0	105.0
G. Non-tax revenues	Fees (highways, electricity, fuels), sale of CO^2 emission permits.	199.1	229.1	229.1	229.1	229.1
	Repayments of loans from state-owned enterprises (SOEs), previously recorded as capital transfer, and extra transfer from SOEs to the government.		71.0	71.0	71.0	71.0

Note: The percentage of nominal GDP is calculated by the OECD based on the government's GDP forecasts.

Sources: "OECD Fiscal Consolidation Survey 2012" and "Stability Programme 2012" (Ministry of Finance, 2012).

4. Institutional reforms

On 8 December 2011, the parliament adopted a constitutional law on budgetary responsibility. The new regulation aims at stronger government commitment, with an obligation to introduce measures if there is deviation from the principles of responsible fiscal policy, measured by core indicators of the economy of the Slovak Republic. The reform is based on the concept of net worth which takes into account both balance sheet variables and flow variables, such as income and expenditures. The reform also focuses on transparency and credibility, and ensures sufficient space for the operation of automatic stabilisers.

With effect from 1 March 2012, the following adjustments have taken place:

- A Council for Fiscal Responsibility was established as an independent body to monitor and evaluate the government's budgetary targets. The Council has three members, who will be elected for the first time this year by a three-fifths majority vote of the parliament. The Council shall publish a report on long-term sustainability annually by 30 April and a report evaluating the implementation of the rules of financial responsibility for the preceding financial year annually by 30 August.
- The maximum limit of general government gross debt was enacted to be 50% of GDP, which will apply from 2028 and with an escape clause in case of war, for example. By 2017, the maximal limit of government debt will be fixed at 60% of GDP. Starting in 2018 until the end of 2027, the maximal limit of government debt decrease will be one percentage point year by year. From 2028 onward, if the debt reaches the threshold of 40% of GDP, the government has to implement measures depending on the actual debt level. If the debt reaches the threshold of 50% of GDP, the government has to request a confidence vote of the parliament.
- Rules of transparency in the process of budget preparation were established.
- Rules of mandatory disclosure were established for certain data and extracts of the budget and for the final account of the state.

The budgetary rules for local government were tightened.

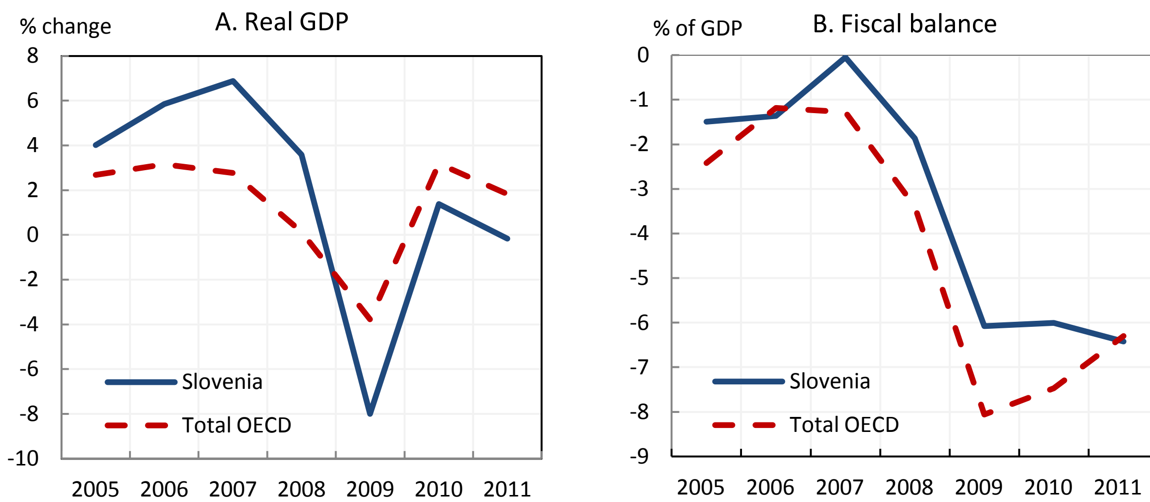
SLOVENIA

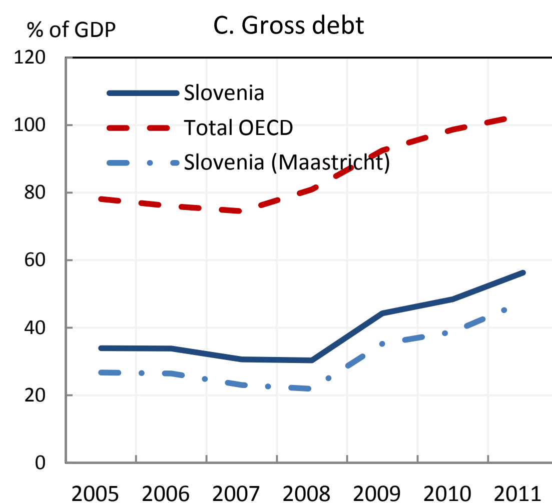
1. Economic situation

The recovery of the Slovenian economy that had been mainly sustained by the external sector almost came to a halt in the first quarter of 2011 while Slovenia slipped back into recession (Figure 1A). The OECD expects that the economy will contract by 2% in 2012 and continue to fall early next year (though at a slower pace). The fiscal balance has remained at around 6% of GDP most notably due to weak macroeconomic outturns, the re-capitalisation of systemic banks, and support to the state railway and airline companies (Figure 1B). Following the substantial deficits, the gross debt has continued to increase in recent years, to 56.4% in 2011 (47.6% Maastricht basis), though still below the EU threshold and substantially lower than the OECD average (Figure 1C).

Coupled with the increasingly uncertain political situation and implementation risks of the fiscal consolidation plans, some rating agencies have recently downgraded Slovenia's sovereign rating. Reflecting heightened concerns about the state of public finances, government bond yields rose to 7% in mid-November 2011.

Figure 1. Key economic indicators





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

Source: OECD (2012), OECD Economic Outlook, Vol. 2012/1, OECD Publishing.

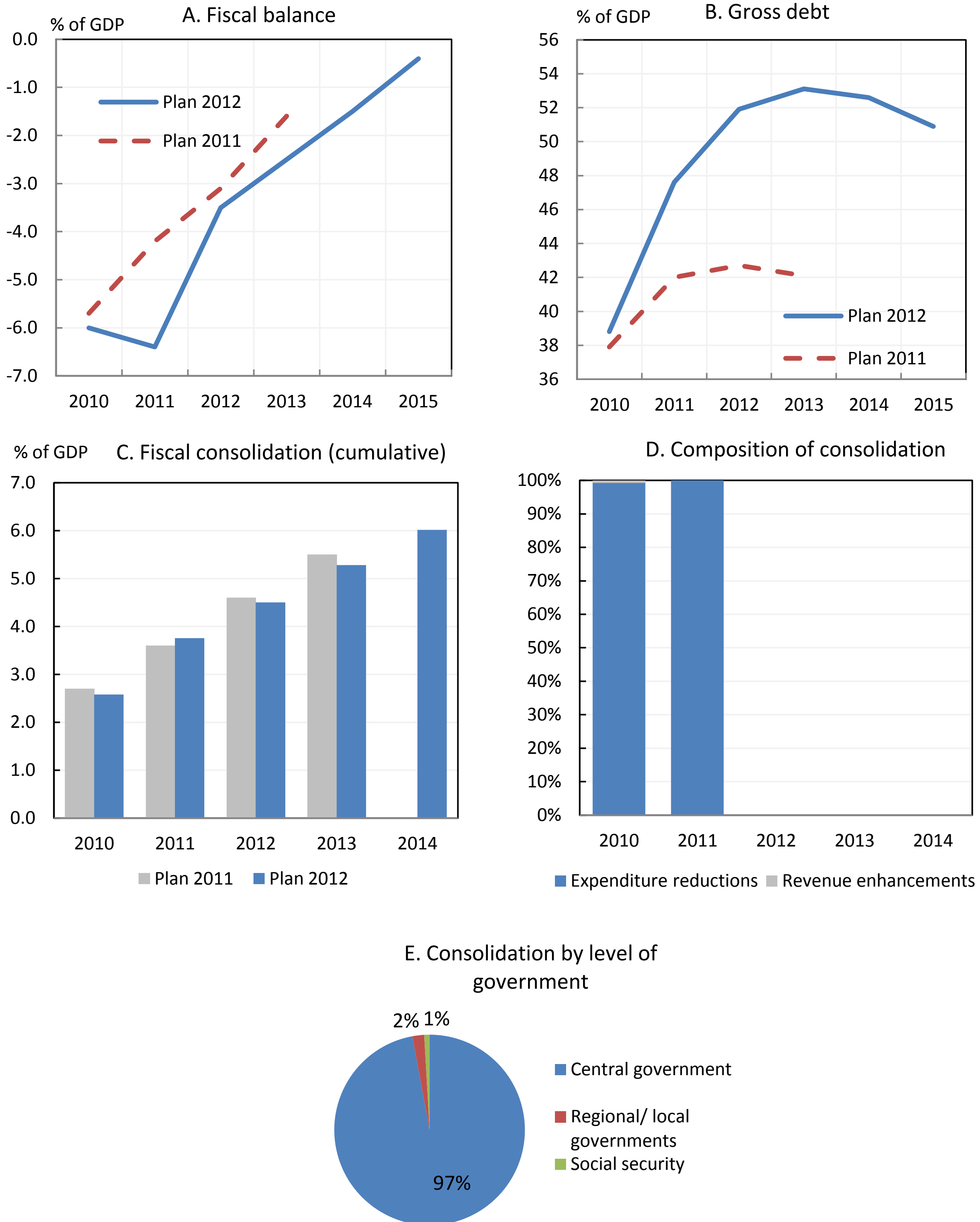
2. The government's fiscal consolidation plan

According to the requirements of the excessive deficit procedure of the EU, Slovenia is obliged to reduce its general government deficit below 3% by the end of 2013, which is a central fiscal target in the framework of the Stability Programme, the annual programme to be submitted to the European Commission in accordance with the Stability and Growth Pact, as updated in April 2012. The new five-party centre-right coalition government's mid-term public finance framework envisages a structural balance in 2015. Due to the change of government, the 2012 budget – adopted in December 2010 – was modified by a supplementary budget after the new government took office in February 2012. In the supplementary budget, the government has introduced new policy measures in order to comply with the medium-term fiscal policy targets. The outturn on the fiscal deficit in 2011 is set at 6.4% of GDP compared to a target of 4.2 set in the budget (Figure 2A). The key driver behind the widened deficit was a contraction in economic growth by 0.2 % instead of the envisaged growth rate of 1.8% of GDP, coupled with one-off and extraordinary expenditure that amounted to 1.3% of GDP, including a capital increase in state-owned enterprises.

The government expects the gross debt (Maastricht basis) to peak in 2013 at 53.1% of GDP substantially higher than planned in 2011 (Figure 2B). In September 2011, the previous government adopted a supplementary budget to address shortfalls in reaching the 2011 targets, most notably due to weak macroeconomic outturns, the re-capitalisation of systemic banks, and support to the state railway and airline companies.

Compared to the consolidation plan presented in the Stability Programme and described in the previous edition of "Restoring Public Finances" (OECD, 2011), the consolidation effort was slightly more stringent in 2011 (Figure 2C). The composition of the consolidation measures relies primarily on expenditure cuts, and relates mostly to the central government (Figure 2D and 2E). The measures focus primarily on containing the public sector wage bill and cutting capital spending. Investment expenditures are shifted to those financed exclusively from the EU funds. The system of social security transfers has been rationalised through a one-stop shop. Since borrowing by the lower levels of the government is strictly limited by the existing legislation, sub-national governments do not represent a major challenge for fiscal consolidation.

Figure 2. The government's planned fiscal consolidation



Notes: Fiscal balance is general government financial balance and gross debt is gross financial liabilities (Maastricht basis) as a per cent of nominal GDP projected by the government. Fiscal consolidation is the cumulative consolidation volume as a per cent of nominal GDP projected by the government. The composition of consolidation is expenditure reductions and revenue enhancements in the actual year (cumulative, total 100%). Data on overall

composition of measures are not available for 2012-14. Data concerning "Plan 2012" includes implemented consolidation efforts in 2010 and 2011.

Sources: "OECD Fiscal Consolidation Survey 2012" and "Restoring Public Finances" (OECD, 2011).

Table 1. The government's fiscal consolidation plan

	2010	2011	2012	2013	2014
Fiscal consolidation volume and path, % of nominal GDP					
Total fiscal consolidation volume	2.6	3.8	4.5	5.3	6.0
Fiscal balance, deficit (-)/ surplus (+)	-6.0	-6.4	-3.5	-2.5	-1.5
Gross debt	38.8	47.6	51.9	53.1	52.6
GDP growth rate in per cent, year on year					
Nominal GDP growth forecasts	0.3%	0.6%	0.0%	2.7%	4.0%
Fiscal consolidation through expenditure reductions and/or revenue enhancements (total = 100%)					
Expenditure reductions	99.3%	100.0%			
Revenue enhancements	0.7%	0.0%			
Fiscal consolidation, million EUR					
Expenditure reductions	908	1 342			
Revenue enhancements	6	-			
Total consolidation	914	1 342	1 591	1 957	2 300

Notes: Nominal GDP growth forecasts were calculated by the OECD on the basis of government estimates of nominal GDP for 2009-11; for the years after 2011, GDP growth percentages are OECD projections (OECD Economic Outlook, Vol.2011/2). Fiscal consolidation in the national currency is calculated by the OECD based on government estimates of consolidation volume in per cent of GDP.

Sources: "OECD Fiscal Consolidation Survey 2012", Stability Programme 2012 (Ministry of Finance, 2012), and OECD calculations.

3. Major consolidation measures

Owing to the uncertain political situation, the Slovenian government has not displayed concrete consolidation measures for 2012 and beyond in the survey response. Based on the Slovenian Stability Programme 2012, the OECD has included in Table 2 some new measures adopted in 2012, though quantification of these measures is not available. The implemented consolidation measures on the expenditure side encompass substantial wage freezes, a reduction in the pace of indexation of social transfers and pensions, and a cut in capital spending.

On the revenue side, no major policy changes are envisaged so far. The focus is mainly on increasing the efficiency of the tax collection system by broadening the tax base through better enforcement with the planned introduction of tax registers.

Table 2. Major consolidation measures

Million EUR

		2010	2011	2012	2013	2014
I. Expenditures		908.9	1 272.5			
	% of nominal GDP	*2.6%*	*3.6%*			
A. Operational measures		302.9	422.8			
	% of nominal GDP	*0.9%*	*1.2%*			
A1. Compensation of employees		202.1	196.3			
	Wage limitation and (from 2012) wage cuts by 5% across the entire public sector.	Limited to 1.2% annually		244.0	477.0	n.a.
	Reduce the number of public employees in 2010 and 2011.	-1%	0%			
A2. Intermediate consumption	The public sector wage bill and intermediate consumption will be cut by 14%.	100.8	226.5	n.a.	n.a.	n.a.
B. Programme measures		606.0	849.7			
	% of nominal GDP	*1.7%*	*2.4%*			
B1. Pensions		74.0	73.7	n.a.	n.a.	n.a.
B2. Social transfers	Reduce expenditures of labour market programmes, health care and social protection policies. Among others: changes in the benefits for unemployment, reduction of the parental benefit for child care and nursing, selective reduction of child benefits, means-tested subsidies to pupils and students and to self-employed persons in culture.	22.0	4.2	137.0	232.0	145.0
B3. 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.	n.a.
B4. Education	Rationalising the educational system.			28.0	130.0	*160.0*
B5. Subsidies	Cuts in subsidies to private and public enterprises by 19.3% in 2012 (mostly agriculture, forestry, fisheries and food sectors).			n.a.	n.a.	n.a.
B6. Investments	Reduced expenditure.	266.0	482.6	551.8	n.a.	n.a.
B7. Other expenditures	Reduced expenditure.	244.0	289.2	n.a.	n.a.	n.a.
B8. Redefinition of standards	Redefine public service standards, reconsider the price of services and more use of user fees.	n.a.		n.a.	n.a.	n.a.

		2010	2011	2012	2013	2014
II. Total revenue enhancement measures		5.4	5.4			
	% of nominal GDP	0.0%	0.0%			
A. Income tax	An increase in the level of tax allowances for investment in research and development to 100% of the amount invested, and the general tax allowances for investment will be increased to 40% of the amount invested.			n.a.	n.a.	n.a.
	The nominal tax rate of corporate income tax will be reduced from 20% to 18% in 2012 and then gradually by one percentage point to reach 15% of the taxable base.			n.a.	n.a.	n.a.
B. Capital/ property tax	Increase of general tax rate for tax on income from capital and profit from transfer of derivatives, from 20% to 25%.			40.0	80.0	120.0
	Introduction of a tax on profit on disposal of land into building land.					
	Introduction of an anti-crisis tax on immovable property of a value of more than EUR 1 million and not used for business, temporarily until the end of 2014.					
C. Motor vehicles	Introduction of a supplementary motor vehicle tax that will be applied on motor vehicles of 2 500 ccm or more engine volume.					
	Limit possible tax evasions and introduce environmental criteria.	19.0	19.0	n.a.	n.a.	n.a.
D. Value-added tax	Reduced	-100.0	-100.0	n.a.	n.a.	n.a.
E. Excise duties	Mineral oil and gas	40.4	40.4	n.a.	n.a.	n.a.
	Alcohol	4.0	4.0	n.a.	n.a.	n.a.
	Tobacco	21.0	21.0	n.a.	n.a.	n.a.
	Electricity	21.0	21.0	n.a.	n.a.	n.a.

Note: The percentage of nominal GDP is calculated by the OECD based on the government's GDP forecasts.

Source: "OECD Fiscal Consolidation Survey 2012" and Stability Programme 2012 (Ministry of Finance, 2012).

Pension

After the adopted pension reform was rejected in the referendum of June 2011, the necessary changes are to be legislated in mid-2012. Some of the main elements of the rejected reform were designed to have a direct impact on public finances and the long-term sustainability of pension expenditures, including a higher retirement age, a higher number of years of service for calculating the pension base, and changes in

the pace of pension indexation. According to government calculations, pension expenditures as a share of GDP in the next 15 years should remain at current levels, and the projected value in 2060 was estimated approximately 3 percentage points lower.

4. Institutional reforms

The government has introduced essential changes in several areas of its fiscal institutional framework:

Fiscal rules	Medium-term expenditure rule, formula (SP 7.3).
Medium-term expenditure frameworks	An overall expenditure ceiling is set on the basis of the formula within the medium-term expenditure framework.
Expenditure ceilings or forecasts	Medium-term expenditure ceilings are set (SP 7.3).
Performance and results	Based on a newly introduced programme classification, programme budgeting was introduced into the budget process.

The government has submitted a proposal to the Parliament to change Article 148 of the Constitution, enacting a fiscal rule in line with the requirements of the Treaty on Stability, Co-ordination and Governance in the Economic and Monetary Union. The proposed amendment stipulates that the budgetary position of the general government should be balanced or in surplus. Should the balance exhibit a deficit in any year, it shall be offset with surpluses of other years. The proposed amendment allows for an exception in case of natural disasters with serious budgetary implications or for other exceptional circumstances. In this case, the general government may incur a deficit provided that a two-third majority votes for it in the Parliament. The national fiscal rule of a general government balance will be applicable as of 2015 onwards. A more detailed mechanics of the fiscal rule will be set forth in an accompanying implementation act, also to be adopted by a two-thirds majority.

The accompanying implementing act stipulates that an expenditure ceiling is set taking into account the foreseen revenue limit multiplied by a coefficient between trend and forecasted GDP level, which will enable the functioning of automatic stabilisers. The implementing act also strengthens the role of the fiscal council as an independent advisory body for fiscal policy. The fiscal council will provide an *ex ante* opinion on the foreseen level of revenue and expenditure to be taken into account by the government when deliberating on the draft budget.

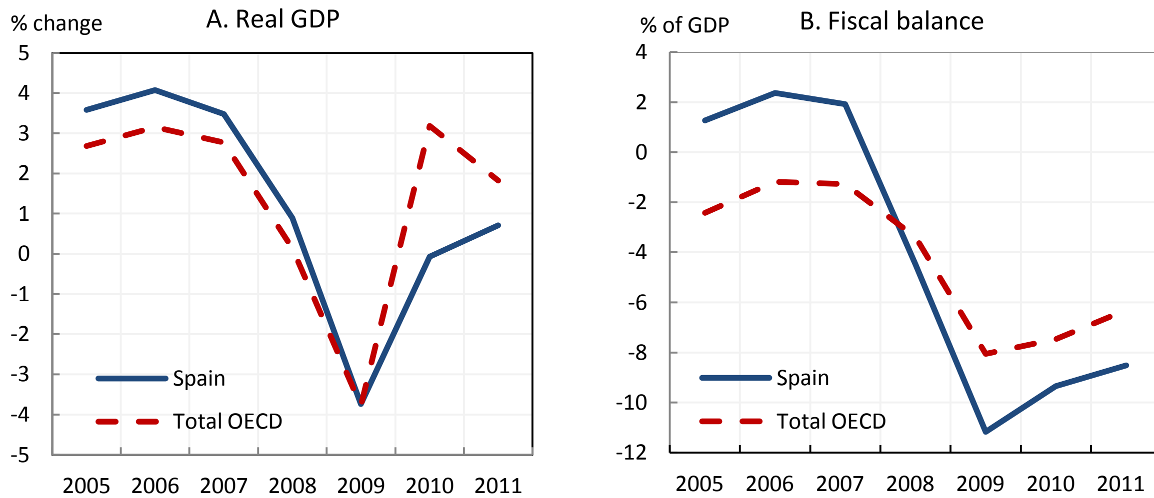
SPAIN

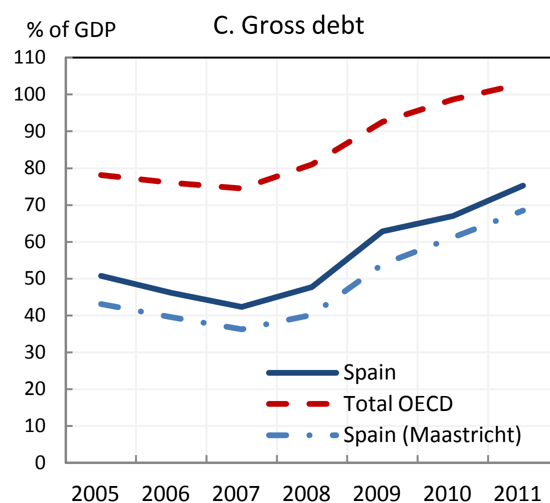
1. Economic situation

The Spanish economy contracted in late 2011 reflecting deleveraging in the private sector, government budgetary consolidation and slowing world trade and the impact of the euro-area debt crisis on confidence and domestic funding conditions (Figure 1A). The general government fiscal deficit slipped to 8.5% of GDP in 2011, substantially below the target and also below most other OECD countries, mainly following revenue shortfalls leading to unexpected higher deficits in regional and local governments (Figure 1B). The general government gross debt is still rising, but is set to peak in 2013 (Figure 1C). The challenging economic situation encompasses a record high unemployment rate above 23% and increased long-term sovereign bond yields.

The OECD expects that the economy will continue contracting in 2012 and 2013, as fiscal consolidation and deleveraging in the private sector weigh on domestic demand, though expanding world trade and competitiveness gains will allow for stronger export growth.

Figure 1. Key economic indicators





Note: Fiscal balance is general government financial balance, and gross debt is general government gross financial liabilities as a per cent of nominal GDP. The Spanish gross debt is shown according to SNA definitions and to Maastricht criteria.

Source: OECD (2012), OECD Economic Outlook, Vol. 2012/1, OECD Publishing.

2. The government's fiscal consolidation plan

The target of the Spanish fiscal consolidation strategy is to achieve deficits of 3% of GDP in 2013 and 2.2% in 2014, with an intermediate budget target of 5.3% in 2012 (Figure 2A). The fiscal consolidation process will continue up to the medium-term objective, which is still a cyclically adjusted balanced budget. The general government deficit slipped to 8.5% of GDP in 2011, instead of the target of 6%. Against this backdrop, the consolidation path was amended in the 2012 update of the Spanish Stability Programme, mainly by allowing the 2012 target to slide from 4.4% of GDP from the previous year.

The medium-term debt target is set to peak in 2013 at 82.3%, substantially higher than estimated one year ago. Both the increased deficit and the contributions to the financial assistance packages (the European Stability Mechanism (ESM) and the European Financial Stability Facility (EFSF) are included in the deficit projections (Figure 2B).

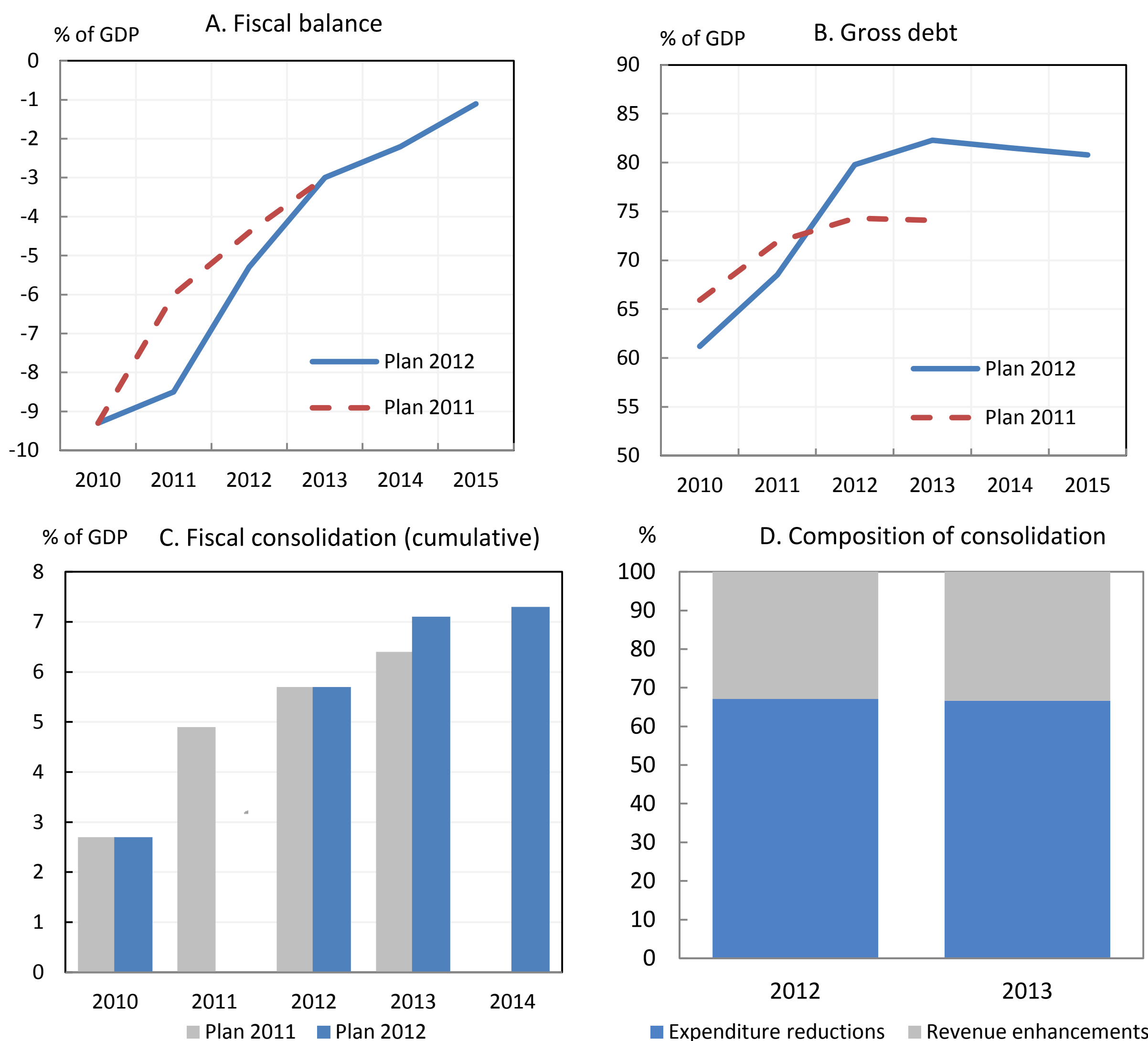
The consolidation plan establishes an annual fiscal effort in excess of 1.5% of GDP on average until 2013, with a front-loaded effort in 2010-11 (Figure 2C). The fiscal consolidation measures are primarily based on expenditure cuts (Figure 2D).

The government adopted additional consolidation measures in at least two rounds. In August 2011, further fiscal austerity measures were adopted by the government in order to reinforce discipline and to ensure the fulfilment of the deficit target. More measures were introduced in the 2012 budget. The 2012 draft budget was presented in March 2012 and is described in the 2012 update of the Spanish Stability Programme as well as being included in Table 2 below.

The government underlines that each of the autonomous communities (regions) has its own budget. In general terms, all of these budgets introduce cuts on the expenditure side as well as revenue-raising measures to achieve their deficit targets in 2012. The regional and local levels are now under stronger control. Regional and local debt issuance must comply with some conditions: long-term debt should be devoted to funding capital expenditures; debt-servicing costs (amortisation and interest payments) should

not exceed 25% of revenues; and all regions must have an authorisation of debt issuance from the federal government.

Figure 2. The government's planned fiscal consolidation



Notes: Fiscal balance is general government financial balance and gross debt is general government gross financial liabilities (Maastricht basis) as a per cent of nominal GDP projected by the government. Fiscal consolidation is the cumulative consolidation volume as a per cent of nominal GDP projected by the government (not confirmed after adoption of the 2012 budget). The composition of consolidation is expenditure reductions and revenue enhancements in the actual year (cumulative, total 100%).

Sources: "OECD Fiscal Consolidation Survey 2012", "Stability Programme 2012" (Ministry of Finance, 2012) and "Restoring Public Finances" (OECD, 2011).

Table 1. The government's fiscal consolidation plan

	2010	2011	2012	2013	2014	2015
Fiscal consolidation volume and path, % of nominal GDP						
Total fiscal consolidation volume	2.7	n.a.	5.7	7.1	7.3	
Fiscal balance, deficit (-)/ surplus (+)	-9.3	-8.5	-5.3	-3.0	-2.2	-1.1
Gross debt	61.2	68.5	79.8	82.3	81.5	80.8
GDP growth rate in per cent, year on year						
Nominal GDP growth forecasts		1.0%	-0.7%	1.9%	3.0%	3.5%
Fiscal consolidation through expenditure reductions and/or revenue enhancements (total = 100%)						
Expenditure reductions			67.1	66.6		
Revenue enhancements			32.9	33.4		
Fiscal consolidation, billion EUR						
Expenditure reductions						
Revenue enhancements						
Total consolidation	28.7	n.a.	60.8	77.1	81.7	

Notes: Nominal GDP growth forecasts are the government estimates of nominal GDP. Fiscal consolidation in the national currency is calculated by the OECD based on government estimates of consolidation volume in per cent of GDP (not updated with additional measures in the 2012 budget).

Sources: "OECD Fiscal Consolidation Survey 2012", "Stability Programme 2012" (Ministry of Finance, 2012) and OECD calculations.

3. Major consolidation measures

Table 2 describes expenditure measures as listed in the 2011 and 2012 update of the Spanish Stability Programme and revenue enhancement measures as presented in "Restoring Public Finances" (OECD, 2011).

In August 2011, the Spanish government adopted some additional measures. The three key measures adopted were: an adjustment to withholding taxes in the corporate tax for large companies; reductions on publicly financed pharmaceutical expenses through enhanced purchasing and fostering the use of generic drugs; and a reduction from 8% to 4% on the value-added tax rate for purchases of new residences (to encourage the acquisition of new residences before year-end).

In late 2011, the new government also adopted new measures affecting both revenues and expenditures. These additional measures are: a temporary increase in income tax, saving tax and property tax (local); no public sector hiring (with few exceptions); a freeze of public wages; a freeze of the guaranteed minimum wage; elimination of renting subsidies for young people; and the postponement until 2013 of the application of the dependence law for new beneficiaries. The government has also started to draft an amendment to the law on political parties in order to reduce their subsidies.

The government has also adopted additional measures in the 2012 budget, which are included in Table 2 based on descriptions in the Stability Programme 2012.

Table 2. Major consolidation measures

Million EUR or percentage of GDP

		2011	2012	2013
I. Expenditures		n.a.	38 930	51 148
	% of nominal GDP		*3.7%*	*4.7%*
A. Operational measures		n.a.	15 988	16 542
	% of nominal GDP		*1.5%*	*1.5%*
Compensation of employees in the public sector (general government)	Freezing of salaries of public sector employees in 2011 (following the 5% cut in 2010).	3 220	3 198	3 258
	Implementation of a 10% replacement rate for all staff in the public sector in 2011-13 (7% staff reduction by 2013).	n.a.	8 527	8 689
	Maintenance of wage moderation.	n.a.	4 264	4 345
Other operational expenditures	Restructuring of governments including removal of duplicated bodies at regional level and central level.		n.a.	250
B. Programme measures		15 620	22 942	34 606
	% of nominal GDP	*1.5%*	*2.2%*	*3.2%*
Health	Measures to streamline health and ensure sustainability of the national health system		3 600	7 200
	Cost-saving measures implemented in the health-care sector (generic prescriptions single doses reductions in reference prices etc.).	1 000		
Pension	Pension payments were frozen in 2011.	1 400		
	The child allowance was eliminated and partial retirement has been restricted.	1 400		
	Early retirement			300
Social security	The current social security contribution rebates have been phased out.	3 220	3 198	3 258
	Social services		613	1 000
Education	Increase teaching hours increased number of students in a class rationalisation of universities etc.		1 333	4 000
	Development of skills			3 500
Justice			128	128
Infra-structure	Public infrastructure investment will be cut in 2011 by EUR 1.8 billion in addition to the cuts made in 2010. In subsequent years the infrastructure investments of the central government will be subject to the annual budget consolidation requirements.	7 800	12 870	12 870
	Other central government investments will be reduced by 25% in 2011-13.		n.a.	1,000
Foreign aid	Foreign development aid will be cut in 2010 and 2011.	800	800	800
Other			400	550

II. Total revenue enhancement measures		n.a.	19 114	25 614
	% of nominal GDP		*1.8%*	*2.4%*
Income tax	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).	170-201	n.a.	n.a.
	A temporary progressive income tax for 2012-13. 0.75% for lower incomes and up to 7% on incomes above EUR 300 000. In addition a temporary tax on income of savings of 2% on income up to EUR 6 000 and 6% of income above EUR 24 000.		4 100	5 100
	Temporary income tax measures 2011-12 for companies.		5 350	5 350
	Other direct taxes.		2 500	
Value added tax	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 2012	n.a.	n.a.
Excise duties	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	n.a.	n.a.
	Excise on snuff.		150	150
Property tax	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.	n.a.	n.a.
	IBI		900	900
Tax expen-ditures	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.	n.a.	n.a.
Fees	Jurisdictional fees.		214	214
Other revenue	Actions against fraud.		1 900	1 900
	Revenue enhancements in the autonomous communities.		3 500	3 500
	Other revenue measures.		500	8 500

Note: The percentage of nominal GDP is calculated by the OECD based on the government's GDP forecasts.

Source: The 2011 and the 2012 updates of the Spanish Stability Programme (Ministry of Finance, 2011 and 2012).

Pension

On 28 January 2011, the government approved a draft bill on social security reform, which is now legislated. The bill contains a set of measures aimed at strengthening the future sustainability of the Spanish pension system, following the recommendations issued by the Congress on 25 January. According

to the government's estimates, the reform will imply savings for the pension system of around 3.5% of GDP in 2050 (2.8% in 2040 and 1.4% in 2030).

4. Institutional reforms

The government has introduced essential changes in several areas of its fiscal institutional framework:

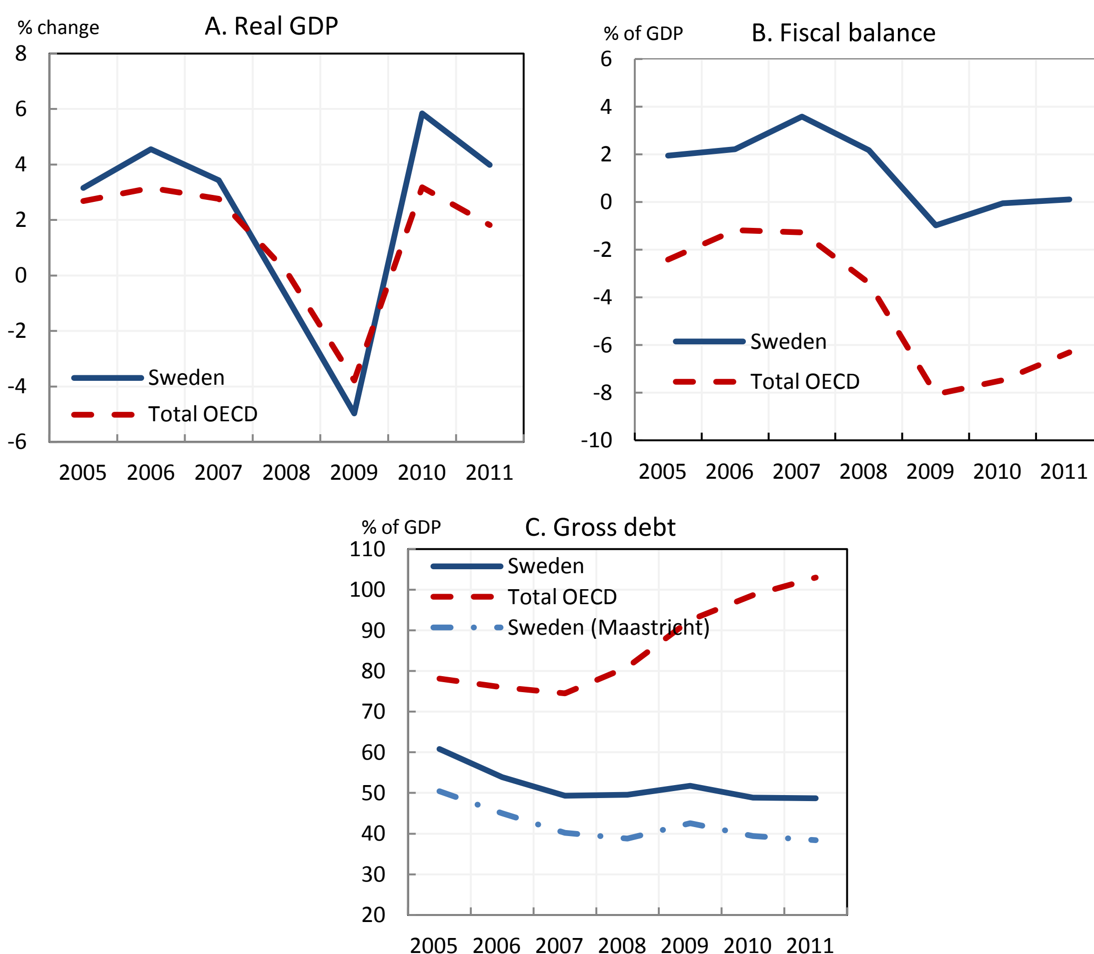
Fiscal rules	The Constitution limits the structural deficit and the debt ratio for the central government, the regions and the local governments. The Constitution also established an expenditure growth cap that links the growth of public spending to medium-term GDP growth. - The corresponding organic law establishes that the overall structural deficit limit is fixed at zero and will be calculated following the EU Commission methodology. For local governments, the organic law will establish the requirement of equilibrium in the headline balance, due to the nature of their public revenues and expenditures. - Payments regarding interest and amortisations of public debt will have the highest priority relative to other public expenditures. - The ratio of public debt to GDP is aimed not be higher than the ratio established in the Treaty on the Functioning of the European Union (60%). - The ceilings on structural deficit and debt can only be exceeded in the case of exceptional circumstances (analogous to those existing in the EU treaty): natural disasters and unforeseen economic recessions not due to government policies. The existence of those circumstances must be recognised (approved) by the Parliament. The organic law will specify the methodology for determining the time frame and speed for correcting the deviation.
Medium-term expenditure frameworks	The new organic law for Budgetary Stability and Financial Sustainability improves the regulation of the MTEF.
Expenditure ceilings or forecasts	The new organic law for Budgetary Stability and Financial Sustainability introduces an expenditure ceiling for the central administration, the autonomous communities and local governments following trend nominal GDP growth. A spending ceiling in nominal terms will be approved each June before the drafting of the central government budget for the coming year.
Budget execution practices	The procedures for monitoring the fiscal commitments of the regions have been intensified. Measures foreseen include an introduction of fines for repeated failure to meet consolidation requirements, intervention powers for the central government in such cases, and stricter deficit-reporting requirements on regional governments in the organic budget stability law.
Legal basis of the framework	A constitutional amendment, supported by an organic law, was approved by the Parliament in mid September 2011.

SWEDEN

1. Economic situation

Sweden enjoyed a very strong broad-based recovery through 2010 and mid-2011, but was hit by the ongoing global economic slowdown in the third quarter of 2011 like most OECD countries (Figure 1A). The fiscal balance still performs significantly better than most OECD countries, and turned into a small surplus in 2011 after experiencing a deficit in 2009 (Figure 1B). Gross debt continued on its downward path in 2010 and 2011 after a marginal increase during the recession (Figure 1C). The OECD projects that Sweden's economic momentum will pick up as world trade regains strength from mid-2012.

Figure 1. Key economic indicators



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

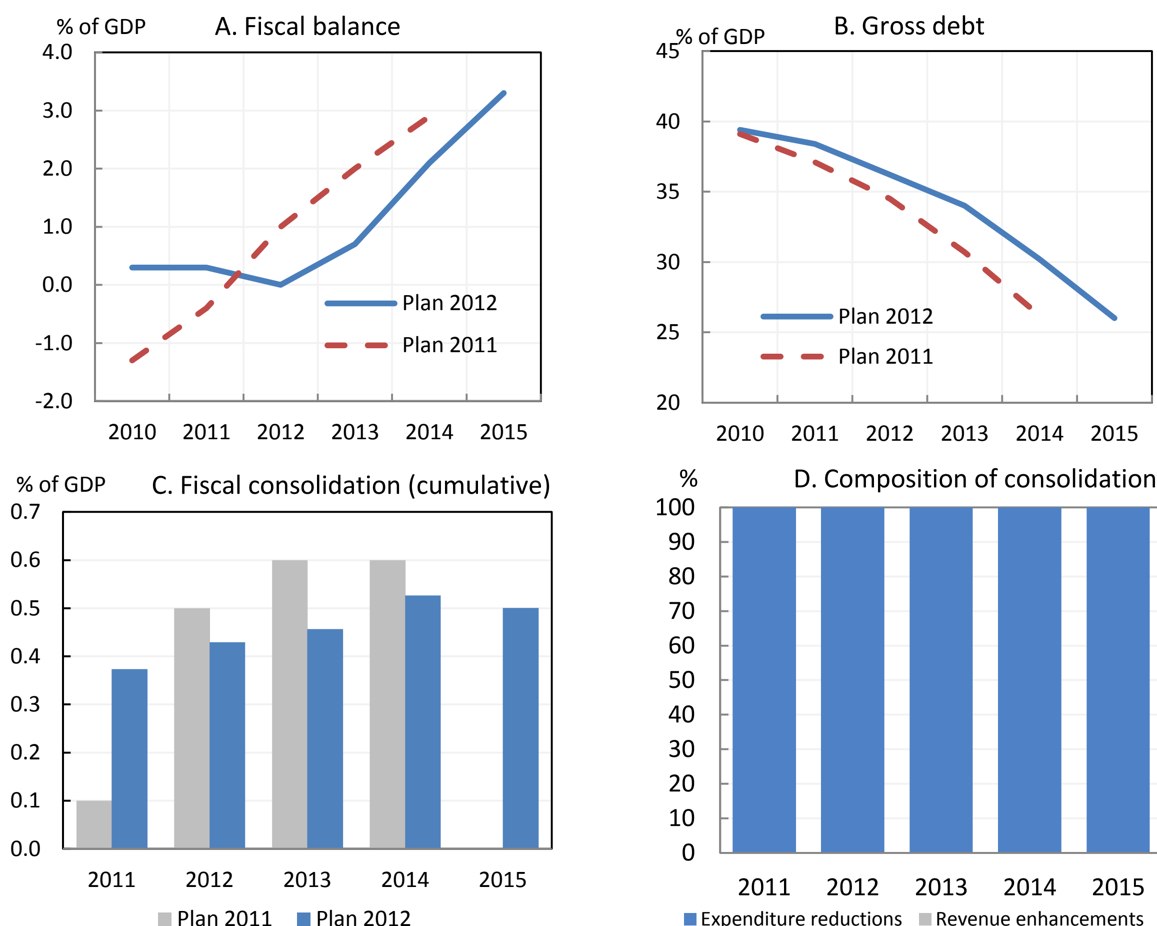
Source: OECD (2012), OECD Economic Outlook, Vol. 2012/1, OECD Publishing.

2. The government's fiscal consolidation effort

For many years, Sweden has benefitted from a well-established fiscal institutional framework and strong political commitment, including a surplus target of 1% of GDP. A structural surplus at the beginning of the crisis has enabled Sweden to respond to the current downturns by means of adequate policy measures. With the strength of its current fiscal position, there is no fiscal consolidation plan in Sweden.

Nevertheless, Sweden did implement some temporary fiscal stimulus measures, from 2009 to 2011 that are being phased out during the period up to 2014. The planned roll-back of the temporary stimulus will imply some fiscal tightening up to 0.5% of GDP over each of the next four years, down from 0.6% projected last year (Figure 2C). Thus the consolidation is solely based on expenditure reductions (Figure 2D). Three sectors are affected by only minor consolidation measures in the central government, namely public safety and order, education and economic affairs. Compared to the fiscal tightening that was described in "Restoring Public Finances" (OECD, 2011) the government will allow the fiscal balance and the gross debt to reach their targets one year later, in 2013, owing to the international set-back in late 2011 and early 2012 (Figure 2A and 2B).

Figure 2. The government's planned fiscal consolidation



Notes: Fiscal balance is general government financial balance and gross debt is general government gross financial liabilities (Maastricht basis) as a per cent of nominal GDP projected by the government. Fiscal consolidation is the

cumulative consolidation volume as a per cent of nominal GDP projected by the government. The composition of consolidation is expenditure reductions in the actual year (cumulative, total 100%).

Source: "OECD Fiscal Consolidation Survey 2012".

Table 1. The government's fiscal consolidation effort

	2010	2011	2012	2013	2014	2015
Fiscal consolidation volume and path, % of nominal GDP						
Total fiscal consolidation volume		0.4	0.4	0.5	0.5	0.5
Fiscal balance, deficit (-)/ surplus (+)	*0.3%*	*0.3%*	*0.0%*	*0.7%*	*2.1%*	*3.3%*
Gross debt	*39.4%*	*38.4%*	*36.2%*	*34.0%*	*30.2%*	*26.0%*
GDP growth rate in per cent, year on year						
Nominal GDP growth forecasts	6.9%	4.5%	1.7%	4.6%	5.4%	5.2%
Fiscal consolidation through expenditure reductions and/or revenue enhancements (total = 100%)						
Expenditure reductions		*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*
Revenue enhancements		*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Fiscal consolidation, million SEK						
Expenditure reductions		12.9	15.1	16.8	20.4	20.4
Revenue enhancements						
Total consolidation		12.9	15.1	16.8	20.4	20.4

Notes: Nominal GDP growth forecasts are government estimates. Fiscal consolidation in the national currency is calculated by the OECD based on government estimates of consolidation volume in per cent of GDP.

Sources: "OECD Fiscal Consolidation Survey 2012" and OECD calculations.

3. Major consolidation measures

Sweden has introduced some consolidation measures related to the withdrawal of previous stimulus (Table 2). The roll-back of stimulus measures in the form of transfers to local governments contributes the most in the consolidation plan. No revenue measures are envisaged.

Table 2. Major consolidation measures

Million SEK (% of nominal GDP)

		2011	2012	2013	2014	2015
I. Expenditures		**12.90**	**15.10**	**16.80**	**20.40**	**20.40**
	Per cent of nominal GDP	*0.4%*	*0.4%*	*0.5%*	*0.5%*	*0.5%*
B. Programme measures		**3.90**	**3.10**	**4.80**	**8.40**	**8.40**
	Per cent of nominal GDP	*0.1%*	*0.1%*	*0.1%*	*0.2%*	*0.2%*
B1. Infrastructure	Roll-back of temporary infrastructure programmes.	1.60	-0.50	-0.40	2.00	2.00
B2. Labour market	Roll-back of temporary labour market measures.	1.70	0.80	2.40	3.60	3.60
B3. Education	Roll-back of temporary education measures.	0.60	2.80	2.80	2.80	2.80
C. Other expenditure measures						
C1. Local government	Roll-back of stimulus transfer to local governments.	9.00	12.00	12.00	12.00	12.00
	Per cent of nominal GDP	*0.3%*	*0.3%*	*0.3%*	*0.3%*	*0.3%*

Notes: The percentage of nominal GDP is calculated by the OECD, based on government's GDP forecasts. The expenditure measures include a number of roll-backs of temporary programmes. Negative (positive) figures mean higher (lower) cumulative expenditures compared to the baseline level (2010).

Source: "OECD Fiscal Consolidation Survey 2012".

4. Institutional reforms

A new budget act was approved by parliament in 2011. This new budget act codifies a lot of earlier budget practices and contains new legislation regarding central government provisions concerning lending. Furthermore, the central government is required to inform the parliament, on a yearly basis, on expected losses and significant risks associated with central government lending and guarantees. The budget act also includes:

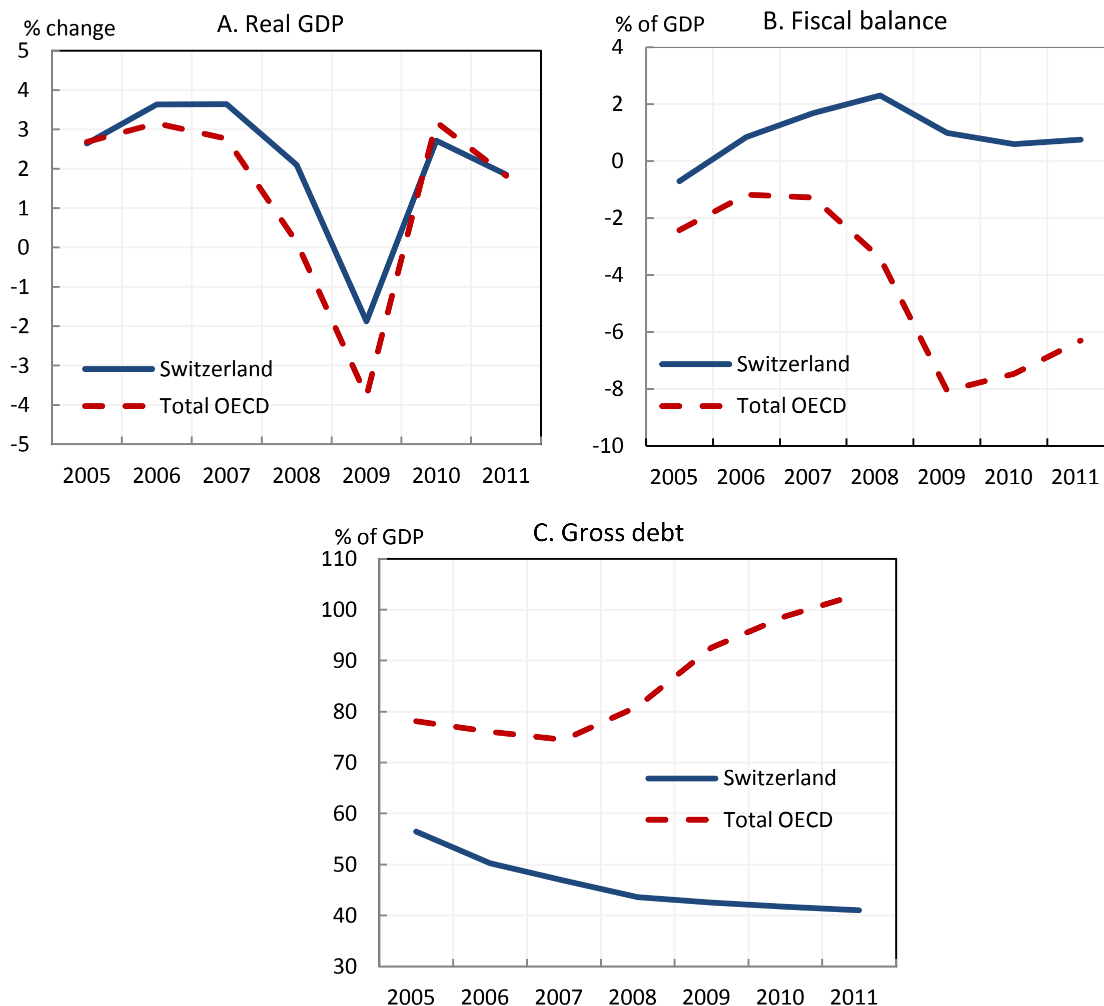
Fiscal rules	The new budget act makes it mandatory for the government to propose a surplus target (general government net lending).
Expenditure ceilings or forecasts	The new budget act makes it mandatory for the government to propose expenditure ceilings in budget bills for three consecutive budget years ahead.

SWITZERLAND

1. Economic situation

Switzerland recovered in 2010 and the first months of 2011 from a limited economic contraction during the fiscal crisis the years before, but was hit by the ongoing global economic slowdown in the last quarter of 2011 – like most OECD countries – owing to slowing activity in export markets and the strong Swiss franc (Figure 1A). The fiscal balance still performs significantly better than the OECD average, though the surplus declined during the crisis and beyond (Figure 1B). Gross debt continued on its downward path in 2010 and 2011 but at a slower pace than before the crisis (Figure 1C). The OECD projects that the Swiss economic growth will resume with strengthening global activity in the second half of 2012.

Figure 1. Key economic indicators



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

Source: OECD (2012), OECD Economic Outlook, Vol. 2012/1, OECD Publishing.

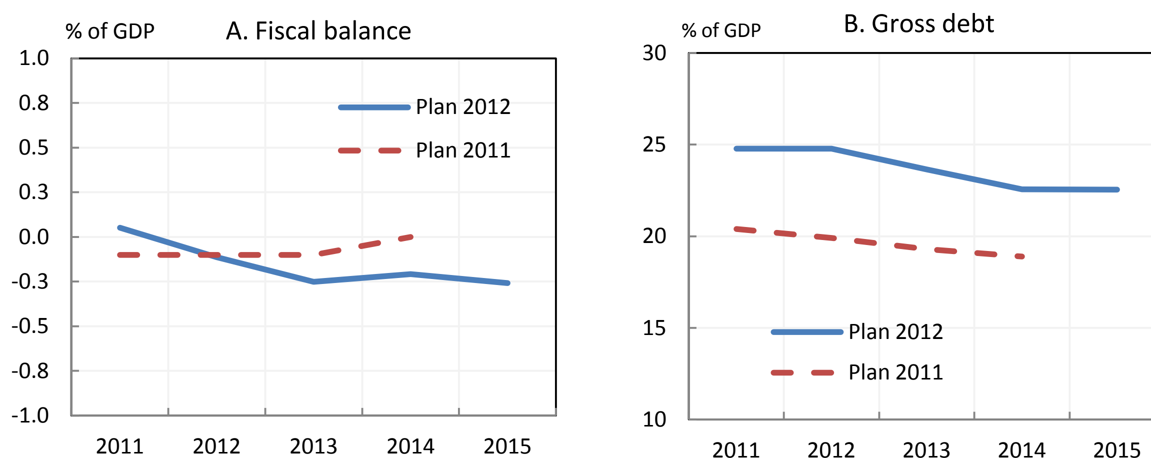
2. The government's fiscal consolidation plan (central government)

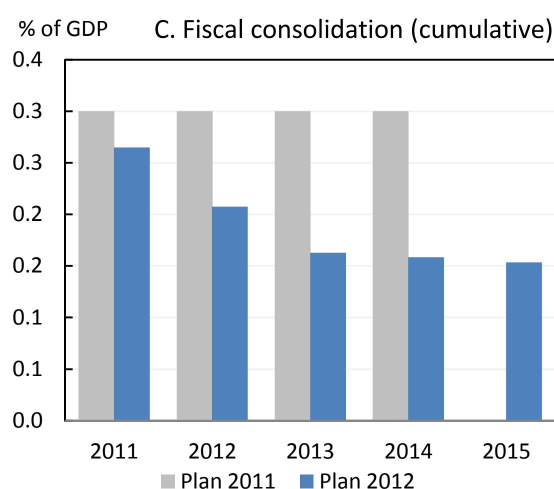
Owing to the strong recovery of the Swiss economy, the Parliament in 2011 decided not to adopt the 2012–13 consolidation programme. This implied merely a suspension of the planned spending cuts linked to efficiency improvements or prioritisation of spending which could have been quickly introduced. The remaining measures, accounting for more than 80% of the total relief package, are still essential to meet the debt brake requirements in the medium term (Figure 2C). Effective consolidation is largely based on expenditure reductions (Figure 2D). All sectors in the central government are affected by only minor consolidation measures.

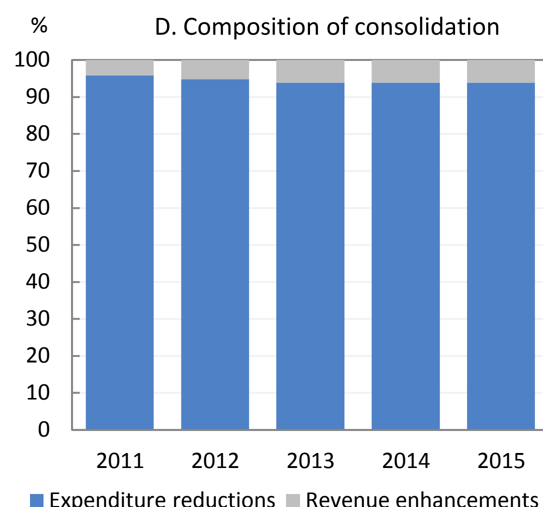
According to the financial plan 2012-15 (prepared in 2011), the debt brake requirements will be met only by a very narrow margin. In the case of an unfavourable macroeconomic development or/and additional (discretionary) spending (*e.g.* increase of the defence budget as discussed in Parliament), it may be necessary to reactivate the suspended consolidation measures. The Federal Council will make policy decisions on these matters in the second quarter of 2012 at the latest, when it approves the budget for 2013 and the financial plan for 2014–16.

To this end, the central government's fiscal balance (net lending/borrowing) is projected by the government to remain at around a deficit of 0.2% or 0.3% of nominal GDP, marginally down from a balanced budget projected last year (Figure 2A). The central government gross debt is projected to continue a downward path leading to 22.5% of GDP in 2015, about 3 percentage points higher than projected last year (Figure 2B).

Figure 2. The government's planned fiscal consolidation







Notes: Fiscal balance is central government financial balance (net lending/borrowing) and gross debt is central government gross financial liabilities (GFSM 2001 basis) as a per cent of nominal GDP projected by the national authorities. Fiscal consolidation is the cumulative consolidation volume as a per cent of nominal GDP projected by the government. The composition of consolidation is expenditure reductions and revenue enhancements in the actual year (cumulative, total 100%). Data concerning "Plan 2012" include implemented consolidation efforts in 2010 and 2011.

Source: "OECD Fiscal Consolidation Survey 2012".

Table 1. The government's fiscal consolidation plan

	2011	2012	2013	2014	2015
Fiscal consolidation volume and path, % of nominal GDP					
Total fiscal consolidation volume	*0.3%*	*0.2%*	*0.2%*	*0.2%*	*0.2%*
Fiscal balance, deficit (-)/ surplus (+)	0.1%	-0.1%	-0.3%	*-0.2%*	*-0.3%*
Gross debt	24.8%	24.8%	23.6%	22.6%	*22.5%*
GDP growth rate in per cent, year on year					
Nominal GDP growth forecasts	2.5%	0.8%	2.4%	2.8%	3.3%
Fiscal consolidation through expenditure reductions and/or revenue enhancements (total = 100%)					
Expenditure reductions	*96%*	*95%*	*94%*	*94%*	*94%*
Revenue enhancements	*4%*	*5%*	*6%*	*6%*	*6%*
Fiscal consolidation, million CHF					
Expenditure reductions	1 433	1 120	891	891	891
Revenue enhancements	62	61	58	58	58
Total consolidation	1 495	1 181	949	949	949

Notes: Nominal GDP growth forecasts are national estimates (2011-13: Group of Experts; 2014-15: Federal Department of Finance). Fiscal consolidation in the national currency is calculated by the OECD based on government estimates of consolidation volume in per cent of GDP.

Sources: "OECD Fiscal Consolidation Survey 2012", "Restoring Public Finances" (OECD, 2011), and OECD calculations.

3. Major consolidation measures

A majority of savings is expected to come through spending constraints. The adjustment of budget ceilings to account for lower actual inflation than expected and reduced debt servicing costs should provide

for effective consolidation. In addition, the federal government is carrying out a spending review programme to optimise the budget structure and assure budget sustainability.

Table 2. Major consolidation measures

Million CHF (% of nominal GDP)

		2011	2012	2013	2014	2015
I. Expenditures		**1 430**	**1 117**	**891**	**891**	**891**
	Per cent of nominal GDP	*0.3%*	*0.2%*	*0.2%*	*0.1%*	*0.1%*
A. Operational measures		**140**	**178**	**193**	**193**	**193**
	Per cent of nominal GDP	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Government administration	Operational expenditure on staff, IT and consulting will be cut back by 2.4% on average.	140	163	178	178	178
	Construction and logistics.		15	15	15	15
B. Programme measures		**177**	**177**	**0**	**0**	**0**
	Per cent of nominal GDP	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Investment spending	Investment spending will be cut by roughly CHF 180 million to reduce the fiscal stimulus measures of 2009.	177	177			
C. Other consolidation measures (in national currency)		***1 113***	***762***	***698***	***698***	***698***
	Per cent of nominal GDP (OECD calculation)	*0.2%*	*0.1%*	*0.1%*	*0.1%*	*0.1%*
C1. Budget ceiling adjustment	Adjustment of budget ceilings to actual inflation.	383	442	448	448	448
C2. 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	320	250	250	250
II. Total revenue enhancement measures		**62**	**61**	**58**	**58**	**58**
	Per cent of nominal GDP	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Tobacco excise	A higher marginal tax rate on tobacco.	62	61	58	58	58

Note: The percentage of nominal GDP is calculated by the OECD, based on the government's GDP forecasts.

Source: "OECD Fiscal Consolidation Survey 2012".

4. Institutional reforms

The government has introduced essential changes in several areas of its fiscal institutional framework:

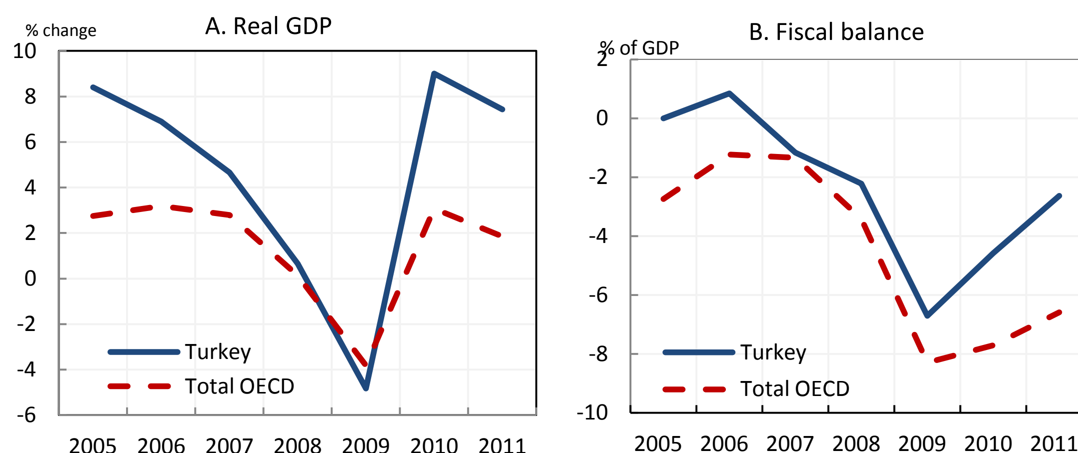
Fiscal rules	The structurally balanced budget rule at the federal level (the "debt brake") was amended in 2010 to include extraordinary one-off operations. Such expenditures are debited to a special "amortization account" (not to be confused with the "compensation account") and generally have to be compensated for during the following six years.
Expenditure ceilings or forecasts	Revenues have repeatedly been underestimated in the last couple of years. As a consequence, the statistical methods used to forecast revenues have been adjusted in order to deliver unbiased forecasts.

TURKEY

1. Economic situation

The financial crisis in 2008 and 2009 hit Turkey hard, but the economy experienced a fast recovery to the pre-crisis level and enjoyed very strong growth in 2010 and early 2011, driven by private consumption and investment. Growth was curbed in late 2011 by credit containment policies and deteriorating global conditions (Figure 1A). As a result of strong economic recovery and fiscal consolidation, the general government deficit is estimated at 2.6% of GDP in 2011, outperforming most OECD countries (Figure 1B).

Figure 1. Key economic indicators



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

Source: OECD (2011c), OECD Economic Outlook, Vol. 2011/2, OECD Publishing.

2. The government's fiscal consolidation plan

According to the government, the implementation of the announced fiscal consolidation measures described in "Restoring Public Finances" (OECD, 2011) has not differed from the assumptions in the plan. Exit strategies were determined in the 2010-12 "Medium-Term Programme" and most of the objectives were achieved. The economy started to recover sooner and stronger than anticipated in the second quarter of 2009. As a result of strong economic recovery, the improvement on general government deficit became more significant and its ratio to GDP decreased to 2.9% in 2010. The EU-defined general government gross debt also receded to 42.2% of GDP in 2010. In 2011, owing to ongoing robust growth in the economy, public revenues increased but public expenditures stabilised and even decreased as a share of GDP. As a result, the government expects the general government deficit to reach 1% of GDP in 2011 and the general government gross debt is expected to reach 39.8% of GDP in 2011 (Maastricht definitions).

According to the 2012-14 "Medium-Term Programme", adopted by the Council of Ministers, the pace of the nominal increase in general government expenditures will be kept below that of general government revenues. As a result of this consolidation strategy, the government projects and improvement of 0.6 percentage points in the general government deficit in 2014 compared to 2011, stabilising at 0.4% of GDP (Figure 2A). Similarly, the government predicts that the general government gross debt (Maastricht

definitions), which started to show a downward trend since 2010, will decrease steadily during the programme period, leading to 32% of GDP in 2014 (Figure 2B).

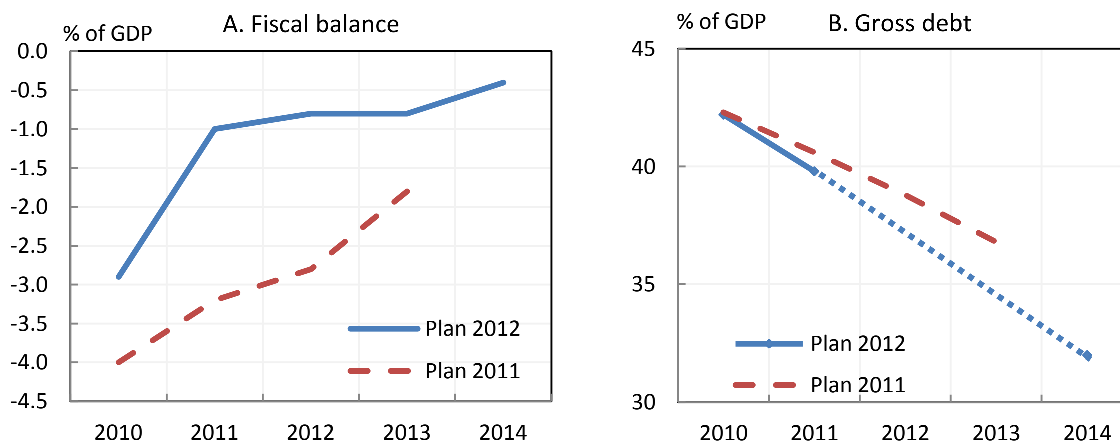
The 2012-14 "Medium-Term Programme" sets out some mechanisms for further consolidation, such as:

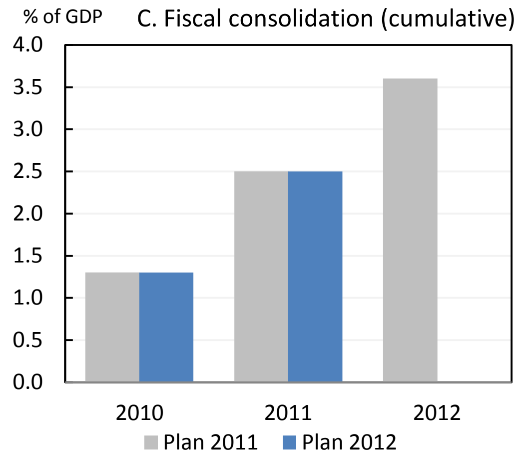
- establishing an administrative mechanism for reviewing spending programmes;
- starting programme-based classification for the effective monitoring of expenditure programmes;
- considering the medium and long-term impact as well as short-term aspects of fiscal policy;
- continuing to limit recruitment of new personnel to control the cost of health care, to prevent double utilisation from social assistance programmes, and to put into practice saving measures for expenditures on goods and services;
- strengthening the financial structure of local governments.

The 2012-14 "Medium-Term Programme" and the "Medium-Term Fiscal Plan" also include some strategies for increasing general government revenues, including among other issues updating lump-sum taxes and fees, broadening the tax base, and making arrangements to increase the revenues of local administrations.

The government expects that the fiscal consolidation strategy will not affect growth negatively. In the 2012-14 "Medium-Term Programme", the growth is based on private consumption and private fixed capital investment.

Figure 2. The government's planned fiscal consolidation





Notes: Fiscal balance is general government financial balance and gross debt is general government gross financial liabilities (Maastricht basis) as a per cent of nominal GDP projected by the government. Fiscal consolidation is the cumulative consolidation volume as a per cent of nominal GDP projected by the government. Data concerning "Plan 2012" include implemented consolidation efforts in 2010 and 2011.

Sources: "OECD Fiscal Consolidation Survey 2012" and "Restoring Public Finances" (OECD, 2011).

Table 1. The government's fiscal consolidation plan

	2010	2011	2012	2013	2014
Fiscal consolidation volume and path, % of nominal GDP					
Total fiscal consolidation volume	1.3%	2.5%			
Fiscal balance, deficit (-)/ surplus (+)	-2.9%	-1.0%	-0.8%	-0.8%	-0.4%
Gross debt	42.2%	39.8%			32.0%
GDP growth rate in per cent, year on year					
Nominal GDP growth forecasts	15.9%	18.2%	11.5%	12.5%	
Fiscal consolidation through expenditure reductions and/or revenue enhancements (total = 100%)					
Expenditure reductions	19.0%	21.0%			
Revenue enhancements	81.0%	79.0%			
Fiscal consolidation, billion TRY					
Expenditure reductions	2.7	6.8			
Revenue enhancements	11.6	25.8			
Total consolidation	14.3	32.6			

Notes: Fiscal balance is general government financial balance and gross debt is general government financial liabilities (Maastricht basis) as a per cent of nominal GDP. Nominal GDP growth forecasts are the OECD forecasts from the Economic Outlook No. 90. Fiscal consolidation in the national currency is calculated by the OECD based on government estimates of consolidation volume in per cent of GDP.

Source: "OECD Fiscal Consolidation Survey 2012".

3. Major consolidation measures

The 2012-14 "Medium-Term Programme" does not display concrete savings related to expenditure reduction measures or revenue enhancement measures.

4. Institutional reforms

The government has set a stronger deadline for the budget process in its fiscal institutional framework:

Legal basis of the framework	The "Central Government Budget Draft Law" was amended in order to shorten the budget process. New deadlines were adopted as below: • The "Medium-Term Programme" shall be adopted and published in the *Official Gazette* by the end of the first week of September at the latest. • The "Medium-Term Fiscal Plan" shall be published in the *Official Gazette* by 15 September at the latest. • The "Budget Call" and the "Budget Preparation Guide", including the annex of the "Budget Call", shall be prepared by the Ministry of Finance and published in the *Official Gazette* by 15 September at the latest. • The budgets of the public administrations shall be submitted to the Ministry of Finance by the end of September.

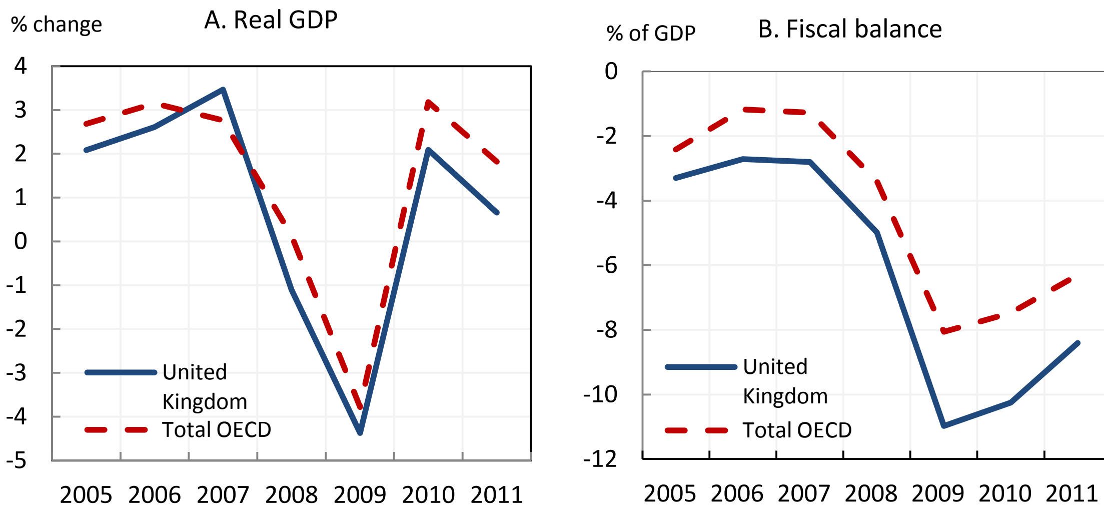
UNITED KINGDOM

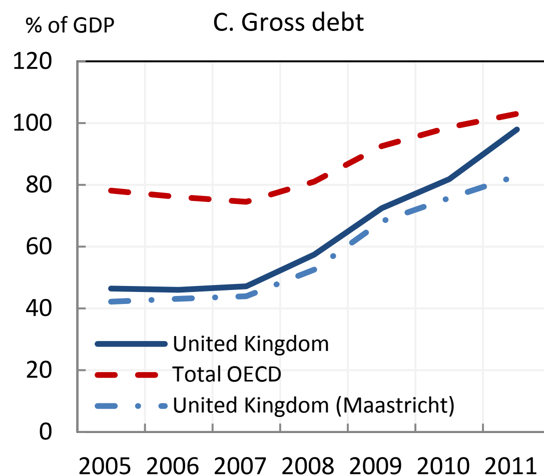
1. Economic situation

The United Kingdom was hit harder by the recession than most OECD countries and experienced a recovery below the OECD average in 2010 due to weak international demand, retrenchment among households, and needed fiscal consolidation. The backlash in the fourth quarter of 2011 – mainly due to the instability and uncertainty of the euro-area crisis – left the United Kingdom economy with a real GDP growth below the OECD average (Figure 1A). The general government fiscal balance is also persistently below the OECD average. After the largest-ever peacetime deficit of 11% of GDP in 2009, the fiscal balance is climbing upwards under the influence of the severe fiscal consolidation (Figure 1B). Public borrowing and debt are still rising, to 97.9% of GDP in 2011 (82.9% Maastricht basis) (Figure 1C).

The economic backlash in the fourth quarter of 2011 and the substantial but necessary planned fiscal tightening created some obstacles, and growth is projected by the OECD to remain subdued in 2012. The OECD expects the recovery to gain more momentum in 2013 when exports are projected to increase further and business investment to grow more robustly.

Figure 1. Key economic indicators





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

Source: OECD (2012), OECD Economic Outlook, Vol. 2012/1, OECD Publishing.

2. The government's fiscal consolidation plan

The government announced its medium-term consolidation plans in June 2010. To enable the United Kingdom to meet those plans, the "Spending Review" of October 2010 set detailed spending plans to FY 2014-15 for all departments. According to the government, implementation of these spending plans is now under way, and departments remain on track to deliver savings. All major tax consolidation measures have been successfully passed as legislation. The "Autumn Statement 2011" reaffirmed the fiscal consolidation plan and took action to ensure that the government's fiscal rules are met, by planning further expenditure restraint in 2015-16 and 2016-17. In those years, total spending will fall in real terms at the same rate as in the "Spending Review" years (FY 2011-12 to 2014-15).

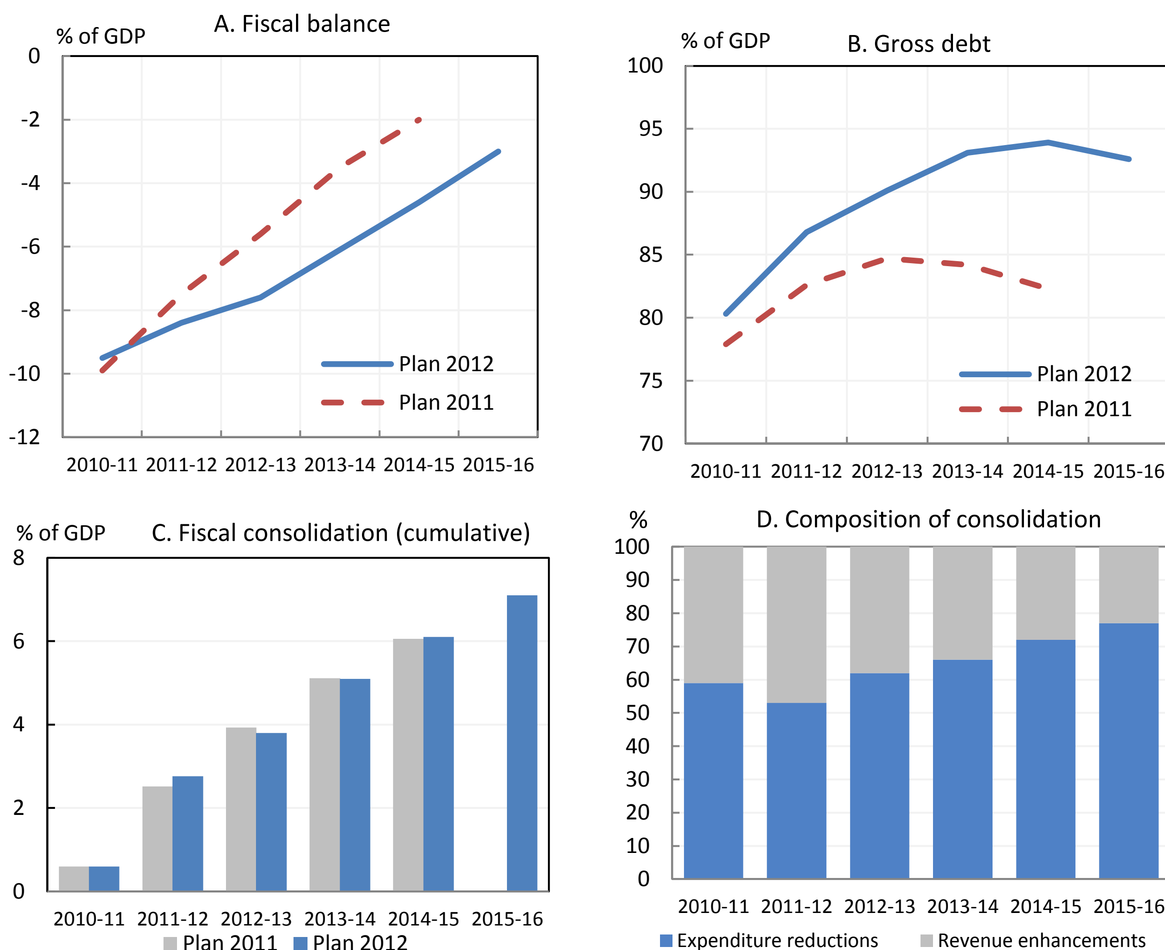
Compared to the consolidation plan described in "Restoring Public Finances" (OECD, 2011), the government has allowed the general government fiscal balance to recover through a gentler path, leading to the targeted 3% deficit by FY 2015-16, and the structural current deficit is projected to be 1.8% by the same fiscal year (Figure 2A). The government's fiscal mandate requires that the cyclically adjusted public sector current balance be returned to balance over the five-year forecast period. The "Autumn Statement 2011" forecasts achievement of this balance in FY 2016-17. The fiscal mandate also requires that the public sector net debt as a percentage of GDP be falling at a fixed date of FY 2015-16. The "Autumn Statement 2011" calls for the general government gross debt to peak by FY 2014-15 instead of FY 2012-13 and at a higher level of 93.9% of nominal GDP (7.5 percentage points higher than forecast in the 2011 budget) (Figure 2B).

According to the "Autumn Statement 2011", the fiscal consolidation plan represents a total consolidation of GBP 130 billion by 2015-16, of which GBP 100 billion comes from spending reductions and GBP 30 billion from net tax increases. A front-loaded consolidation is envisaged, totalling 7.1% of GDP by 2015-16 with the largest adjustment in 2011-12 (Figure 2C).

Overall, there have been no significant changes to the composition of the consolidation, as measured by the split between expenditure reductions and taxes, with spending cuts expected to make up around 77% of the consolidation by FY 2015-16 (Figure 2D). Almost all areas of public spending will be affected by the consolidation, with the exception of the complete ring-fencing of health. A particular focus has been given to reducing welfare costs and wasteful spending (Figure 2E).

The government promotes economic growth during fiscal consolidation by supporting the flow of credit to UK businesses and by accelerating supply-side reforms. Furthermore, the government's fiscal mandate explicitly protects the most productive capital spending. However, this may be difficult to measure, and the consolidation programme also envisages considerable cuts in capital spending. As the fiscal mandate is set on a cyclically adjusted basis, it allows the automatic stabilisers to operate in full to protect growth, provided there is space within the debt limits of the fiscal mandate.

Figure 2. The government's planned fiscal consolidation



E. Sectors affected by fiscal consolidation

No expenditure cuts	Health
Minor expenditure cuts	Economic affairs
	Education
	Environmental protection
	General public services
Moderate expenditure cuts	Defence
Significant expenditure cuts	Housing and community amenities
	Public order and safety
	Recreation, culture and religion
	Social protection

Notes: Fiscal balance is general government financial balance (net lending) and gross debt is gross financial liabilities (Maastricht basis) as a per cent of nominal GDP projected by the Office for Budget Responsibility (OBR). The budget figures relate to fiscal years starting in March. Fiscal consolidation is the cumulative consolidation volume as a per cent of nominal GDP projected by the OBR. The composition of consolidation is expenditure reductions and revenue enhancements in the actual year (cumulative, total 100%). The sectors affected by fiscal consolidation are presented according to COFOG and the government's assessment. Data concerning "Plan 2012" include implemented consolidation efforts in 2010 and 2011.

Sources: "OECD Fiscal Consolidation Survey 2012" and *Economic and Fiscal Outlook* (Office for Budget Responsibility, November 2011).

Table 1. The government's fiscal consolidation plan

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Fiscal consolidation volume and path, % of nominal GDP						
Total fiscal consolidation volume	0.6%	2.8%	3.8%	5.1%	6.1%	7.1%
Fiscal balance, deficit (-)/ surplus (+)	-9.5%	-8.4%	-7.6%	-6.1%	-4.6%	-3.0%
Gross debt	80.3%	86.8%	90.1%	93.1%	93.9%	92.6%
GDP growth rate in per cent, year on year						
Nominal GDP growth forecasts		3.0%	3.7%	4.9%	5.4%	5.7%
Fiscal consolidation through expenditure reductions and/or revenue enhancements (total = 100%)						
Expenditure reductions	59.0%	53.0%	62.0%	66.0%	72.0%	77.0%
Revenue enhancements	41.0%	47.0%	38.0%	34.0%	28.0%	23.0%
Fiscal consolidation, billion GBP						
Expenditure reductions	5	22	37	56	77	100
Revenue enhancements	4	20	23	29	30	30
Total consolidation	9	42	60	85	107	130

Notes: The budget figures relate to fiscal years starting in March. Nominal GDP growth forecasts are OECD calculations on the basis of OBR estimates). Fiscal consolidation in the national currency is calculated by the OECD based on government estimates of consolidation volume in per cent of GDP.

Sources: "OECD Fiscal Consolidation Survey 2012", *Economic and Fiscal Outlook* (Office for Budget Responsibility, November 2011), and "Autumn Statement 2011".

3. Major consolidation measures

The departments' (ministries') total programme and administrative budgets will be cut in the range of 3.4% to 51% with an average cut of 8.3% over four years. Total spending will be cut in real terms in 2015-16 and 2016-17 at the same rate as for the four-year period from 2011-12 to 2014-15. General government employment will fall by 710 000 by 2016-17. A two-year wage freeze and efficiency measures will provide savings of more than 0.5% of GDP by 2014, and public sector pay awards will be set at an average of 1% for each of the two years after the current pay freeze comes to an end. The government will not go ahead with the planned increase to the child element of the Child Tax Credit (originally planned at GBP 110 above inflation) and will not upgrade the couple and lone parent elements of the Working Tax Credit in 2012–13, to ensure that the welfare system remains affordable.

The announced revenue measures amount to around 1.6% of GDP in 2015. The most important revenue measure is the increase in the standard VAT rate from 17.5% to 20% that was introduced in 2011. In addition, among others, there will be increased income tax from North Sea activities and private persons, as well as increased bank levies and reduced pension tax credits.

Table 2. Major consolidation measures

Million GBP (% of nominal GDP)

		2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
I. Expenditures		**0**	**4 490**	**9 440**	**17 455**	**22 760**	**25 535**
	Per cent of nominal GDP	*0.0%*	*0.3%*	*0.6%*	*1.1%*	*1.3%*	*1.4%*
A. Operational measures							
A1. Administrative budgets	All departments' administrative budgets (including arm's-length bodies) will be cut in real terms (by 2014-15).	33% to 42%					
A2.1. Staff expenditure - wages	Two-year wage freeze in public sector pay followed by two years of further pay restraint.	Savings around GBP 5 billion per year by 2014-15					
A2.2. Staff expenditure – staffing	Public sector jobs cut. General government employment will fall by 710 000 by 2016-17.	n.a.					
A3. Operating expenditures	Efficiency savings.	n.a.					
B. Programme measures		**0**	**3 280**	**7 900**	**14 530**	**19 200**	**21 900**
	Per cent of nominal GDP	*0.0%*	*0.2%*	*0.5%*	*0.9%*	*1.1%*	*1.2%*
B1. Programme budgets	Departments' programme (and administrative) budgets will be cut in real terms.	Spending Review cuts from 3.4% to 51%, average cut of 8.3%					
	Further restraint to total spending in 2015-16 and 2016-17.	Setting total spending growth in 2015-16 and 2016-17 at the same rate as over the Spending Review period (2010-11 to 2014-15)					
B2. Employment	Working Tax Credit: freeze in the basic and 30-hour elements for three years from 2011-12.		270	750	975	1 030	1 035
	Contributory Employment and Support Allowance: time limit for those in the work-related activity group to one year.			450	815	1 100	
	Working Tax Credit: increase working hours requirement for couples with children to 24 hours.		0	515	510	505	515
	Working Tax Credit: reduce payable costs through childcare element from 80% to 70% restoring 2006 rate.		335	350	370	390	405
	Working Tax Credit: freeze.		0	265	290	275	275
B3. Housing	Local Housing Allowance: set at the 30th percentile of local rents from April 2011 with transitional protection for existing claimants.		130	375	445	475	505
	Switch to CPI indexation for Local Housing Allowance.		0	45	140	290	465
	Housing Benefit: increase age limit for shared room rate from 25 to 35.		10	170	230	215	205
	Total household benefit payments capped on the basis of average take-home pay for working households.		0	0	225	270	270
	Local Housing Allowance: caps on maximum rates for each property size, with 4-bed limit from 2011-12 with transitional protection for existing claimants.		35	115	145	165	185
B4. Savings credit	Savings Credit: freeze maximum award for four years from 2011-12.		225	280	330	415	425
B5. Council tax	Council Tax Benefit: 10% reduction in expenditure and localisation.		0	0	490	490	490

		2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
B6. Child benefits	Child Benefit: remove from families with a higher rate taxpayer.		0	600	2 435	2 485	2 530
	Lone parent benefits: extend conditionality to those with children aged 5 and above from January 2012.		0	70	210	290	320
B7. Disability	Benefits, tax credits and public service pensions: switch to CPI indexation from 2011-12.		1 500	3 050	4 885	7 555	10 595
	Disability Living Allowance: reform gateway from 2013-14.		0	0	360	1 070	1 450
	Social sector: limit working age entitlements to reflect the size of the family from 2013-14.		0	0	490	490	490
	Tax credits: first and second withdrawal rates: increase to 41% from 2011-12.		645	700	730	755	780
	Tax credits: reduce the income disregard from GBP 25 000 to GBP 10 000 for two years in 2011-12 then to GBP 5 000 from 2013-14.		130	165	455	540	605
	Child and Working Tax Credits: use real-time information.		0	0	0	395	355
C. Other consolidation measures		**0.0**	**1 210**	**1 540**	**2 925**	**3 560**	**3 635**
	Per cent of nominal GDP	*0.0%*	*0.1%*	*0.1%*	*0.2%*	*0.2%*	*0.2%*
	Public sector pensions: increase in employee contribution rates.		0	160	1 270	1 760	1 850
	Renewable Heat Incentive: efficiency savings.		5	15	45	110	180
	Carbon Reduction Commitment: no recycling of revenues.		715	735	1 010	1 040	1 080
	Public Works Loan Board: interest rate increase.		165	330	400	465	525
	TfL Metronet: replace borrowing with central government grant.		325	300	200	185	0
II. Total revenue enhancement measures		**5 980**	**27 025**	**33 885**	**37 960**	**40 975**	**16 110**
	Per cent of nominal GDP	*0.4%*	*1.8%*	*2.1%*	*2.3%*	*2.4%*	*0.9%*
A. Value-added tax	The standard rate will increase from 17.5% to 20%.	2 850	12 500	12 950	13 500	14 050	n.a.
	Increase insurance premium tax (IPT) standard rate to 6% and higher rate to 20% from January 2011.	110	460	455	465	475	n.a.
B. Business taxes	North Sea activities: increase in supplementary charge from 20% to 32% and restriction on decommissioning relief from 2011-12.	0	1 780	2 240	2 120	2 090	1 870
C. Capital tax	Inheritance Tax: Freezes to the threshold.	70	220	360	495	640	n.a.
	Capital Gains Tax: rates change to 18/28% (Entrepreneurs' relief (ER) lifetime limit of GBP 5 million).	0	725	825	850	925	n.a.
D. Personal tax	Income Tax: Restricting personal allowance (PA) over GBP 100 000.	900	1 470	1 470	1 660	1 900	n.a.
	Income Tax: 50% for those earning above GBP 150 000.		1 310	2 940	2 600	2 840	2 970
	National Insurance Contributions: 1% increase in rates, increases to primary and secondary thresholds.	0	3 010	2 910	2 950	3 090	n.a.
	Direct taxes: switch the default indexation assumption to CPI from 2012-13.	0	0	105	235	630	1 080

		2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
	National Insurance Contributions (NICs): implement Government Actuary's "best estimate" approach on contracted-out rebates from 2012-13.	0	0	640	630	620	610
E. Bank levy	Bank levy on bank balance sheets.	0	1 780	2 885	2 910	2 815	315
F. Excise taxes	Alcohol duty increases: index plus 2% until 2014-15.	680	700	710	835	940	n.a.
	Tobacco duty pre-announced increases: index plus 2% until 2014-15.	505	565	625	685	700	n.a.
G. Environmental taxes	Carbon price floor: introduce from 2013-14 with GBP 30 per tonne of CO^2 target.	0	0	0	740	1 070	1 410
H. Pensions	Pensions tax: Freeze lifetime allowance at GBP 1.8 million from 2011-12 for five years.	380	440	500	560	660	n.a.
	Pensions tax: reduced annual allowance.	200	1 200	2 300	4 400	4 400	4 300
	Pensions: Turner - changes to auto-enrolment.	0	0	100	700	1 700	2 100
	Asset-backed pensions contributions: tax treatment.	0	340	450	450	450	450
I. Measures to combat tax avoidance	Various	285	525	1 420	1 175	980	1 005

Note: The percentage of nominal GDP is calculated by the OECD, based on GDP forecasts by the Office for Budget Responsibility.

Source: "OECD Fiscal Consolidation Survey 2012".

Pension

The state pension age for men and women will rise to 66 by 2020. In the "Autumn Statement 2011", the government announced that the state pension age would rise further to 67 between 2026 and 2028. This measure is expected to save around GBP 60 billion in today's prices between 2026–27 and 2035–36.

4. Institutional reforms

The government established the Office for Budget Responsibility (OBR) in May 2010. The stated purpose of establishing the OBR is to improve the independence, transparency and credibility of the official economic and fiscal forecast on which the government bases its fiscal policy. The new fiscal framework introduced by the coalition government following the May 2010 general election has been placed on a permanent, statutory footing through the Budget Responsibility and National Audit Act 2011 (BRNA Act). The government has introduced essential changes in several areas of its fiscal institutional framework:

Long-term projections	• Under the new fiscal policy framework, the responsibility for producing all official economic and fiscal projections has been transferred from the UK Treasury to the independent Office for Budget Responsibility (OBR). • The BRNA Act specifies that the OBR must produce, at least once a year, "an analysis of the sustainability of the public finances". The OBR produced its first *Fiscal Sustainability Report* (FSR) in July 2011. The FSR includes long-term projections for the public finances over the next 50 years.
Economic forecasts	• The BRNA Act specifies that the OBR must produce, on at least two occasions for each financial year, "fiscal and economic forecasts". In practice, these forecasts coincide with the UK Treasury's annual budget statement and the "Autumn Statement" from the Chancellor of the Exchequer. • The OBR has also expanded on the transparency of forecast materials and data. More information can be found on the Office's Internet site at *http://budgetresponsibility.independent.gov.uk*.
Fiscal rules	• Following the financial crisis and recession, the government of the United Kingdom suspended the two fiscal rules (the "golden rule" to balance the current budget over the economic cycle, and the "sustainable investment rule" to maintain public sector net debt below 40% of GDP). • The coalition government has applied the following fiscal targets, or rules, to its fiscal policy since the May 2010 general election; these targets/rules were announced in the June 2010 budget and implemented in the first *Charter for Budget Responsibility* (2011): o to balance the cyclically adjusted current budget by the end of the rolling, five-year forecast period; o to ensure that public sector net debt is falling as a share of GDP in 2015-16. • The BRNA Act also created a duty for the OBR to not only independently produce the forecasts on which the Treasury based fiscal policy, but also to independently assess the government's prospects against its fiscal rules. In all forecasts that the OBR has produced since the May 2010 general election, it has judged that the government is on target to meet its fiscal rules.
Medium-term expenditure frameworks	• The "Spending Review" of October 2010, which was the first to be delivered by the new coalition government and which occurred in the context of a prolonged period of fiscal consolidation, was extended to a four-year horizon to provide for a longer period of public spending restraint and delivery of the government's medium-term fiscal objectives. • In keeping with previous spending reviews, the government set nominal expenditure totals (so-called departmental expenditure limits or DELs) for line ministries for the full four-year spending period. Non-departmental and exceptionally volatile spending remains controlled within the annually managed expenditure (or AME) budget. AME policy is set in the budget and in "Autumn Statements". AME includes, for example, more cyclical spending (*e.g.* the automatic stabilisers) and more volatile spending (*e.g.* central government debt interest payments).
Expenditure ceilings or	Prior to 2010 and the creation of the Office for Budget Responsibility (OBR), annually managed expenditure was forecast by the UK Treasury. Now, the forecast for all AME is

forecasts	produced independently of government ministers by the OBR.

Top-down budgeting	The "Spending Review" of October 2010 covered for the first time key areas of annually managed expenditure in addition to DEL.
Performance and results	The budget exchange mechanism has been implemented. This rewards early forecasting by allowing some forecasted underspending to be taken forward to the next financial year.
Budget approval process	The project called "Clear Line of Sight" aligns parliamentary spending oversight with the budgeting framework.
Budget execution practices	Due to the "Clear Line of Sight" project, budgets are now part of the Parliamentary voting process. Poor financial management against the budgeting framework therefore leads to greater Parliamentary scrutiny.
Legal basis of the framework	The Budget Responsibility and National Audit Act 2011 and the *Charter for Budget Responsibility* (2011) replaced all the elements of the previous fiscal framework.

CHAPTER 3*

INVOLVING SUB-NATIONAL GOVERNMENTS IN FISCAL CONSOLIDATION[11]

Sub-national government finances have been affected by the 2008-09 crises. Now that central governments are pursuing financial consolidation, they need to take into account the financial situation of the sub-national governments, and involve them in the national consolidation strategies, while at the same time preserving the capacity to deliver the key public services for which the central governments are responsible. This section provides concrete information on the financial situation and consolidation needs of sub-national governments in OECD countries, as well as on the policies that are being carried out – at both levels of government – to reach the consolidation objectives.

* 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.

[11] This chapter is based on Vammalle (forthcoming), which benefited from comments and discussions with Mario Marcel (Deputy Director, Public Governance and Territorial Development Directorate), Claire Charbit (Deputy Head of Division, Regional Development Policy Division), William Tompson (Head of Regional Economics and Governance Unit, RDP), Dorothée Allain-Dupré (RDP) and Karen Maguire (RDP). Claudia Hulbert (RDP) provided useful support.

1. Introduction

Sub-national government (SNG) finances have been affected by the 2008-09 crises. Now that CGs are pursuing financial consolidation, they need to take into account the financial situation of their SNGs, and involve these in the national consolidation strategies, while preserving their capacity to deliver the key public services for which they are responsible. This section provides concrete information on the financial situation and consolidation needs of SNGs in OECD countries, as well as on the policies that are being carried out, both by CGs and SNGs to reach the consolidation objectives.[12]

Box 3.1. Key findings

- Fiscal consolidation policies have to consider SNGs as critical partners for achieving national results, as they account for 16% of public debt and 17% of public deficits, and represent 30% of public spending. The success of consolidation at CG level is therefore contingent on the success at SNG level.
- SNGs' financial situation has deteriorated since 2007 (although in many cases, it remains better than the CG's). SNG debt generates a number of potential risks, such as externalities, risk of contagion or anticipations of bailouts from CGs. In addition, their financial situation may affect the evaluation of CG's possibilities to consolidate, and therefore threaten the credibility of CGs' consolidation plans.
- SNG consolidation needs are often considerable, but their margin of maneuver to increase their own revenues is usually limited. Therefore, some countries explore the possibility to increase their tax autonomy, to encourage them to explore other types of revenues (such as fees), and to increase the effectiveness of local public spending.
- After supporting SNGs during the crisis in 2008-09, CGs are now cutting transfers to lower levels of government. This is done directly, by reducing discretionary transfers, or indirectly, due to falling CG revenues on which the transfer formulas are calculated.
- Actions by CGs to reduce their deficits and promote growth can help or hurt SNG finances, intentionally or unintentionally. Increases in the rates of shared taxes benefit SNGs, while tax allowances granted to support business and private consumption reduce their shared tax revenues. The aggregate effect of these measures is unclear.
- Most countries require SNGs to participate in national consolidation plans, by tightening borrowing and deficit rules, imposing spending limits, or tightening the enforcement of existing fiscal rules.
- To meet their consolidation targets (which may be self-imposed or required by the CG), SNGs are taking measures such as:
  - Increasing their own taxes and/or fees (when they have sufficient autonomy to do so);
  - Increasing revenues by fighting tax evasion;
  - Seeking efficiency gains (for example by sharing services)
  - Cutting expenditure, and in particular, public investment tends to be used as an adjustment variable (as SNGs are in charge of two-thirds of public investment in OECD countries, this may have a significant impact on aggregate public investment).

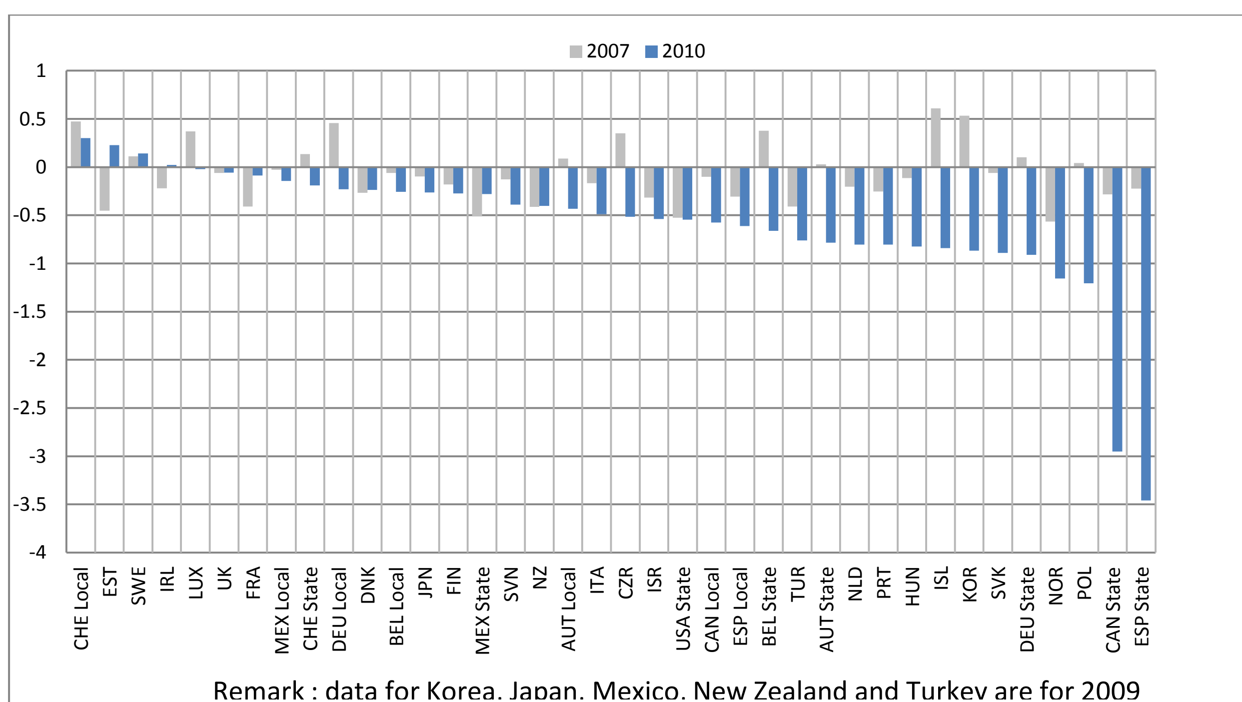
[12] This section is based on a questionnaire sent to the delegates of the OECD Network on Fiscal Relations across Levels of Government and to the Senior Budget Officials delegates. Twenty-four countries responded to the questionnaire, in two waves. In September-October 2011: Australia, Belgium, Czech Republic, Finland, Germany (which provided separate answers for the *Länder* and the municipalities), Hungary, Ireland, Italy, Mexico, Poland, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, and Turkey. In January-April 2012: Austria, Canada, Denmark, Estonia, France, Greece, Portugal, and United Kingdom (which provided separate answers for the English Local Authorities, Local Authorities in Scotland, Wales and Northern Ireland, and United Kingdom Devolved Administrations).

- Consolidation constraints on SNGs may create cascade effects on local labor markets, mainly through public procurement, and threaten local growth possibilities. They can also provoke or increase inequalities in local public service access and quality.
- Some countries have protected priority sectors (such as education, health or social protection), either by preserving earmarked grants for these sectors, or by excluding these expenditures from the expenditure limits and fiscal rules for SNGs.
- Structural reforms such as raising the retirement age or reforming the labor market help SNGs. In addition, many countries are discussing or implementing reforms of the framework of fiscal relations across levels of government which touch on aspects such as: equalisation, grant formulas, SNG taxes and tax autonomy, fiscal rules for SNGs, allocation of roles and responsibilities or territorial organisation.

2. Why it is important to look at SNGs when analysing consolidation policies

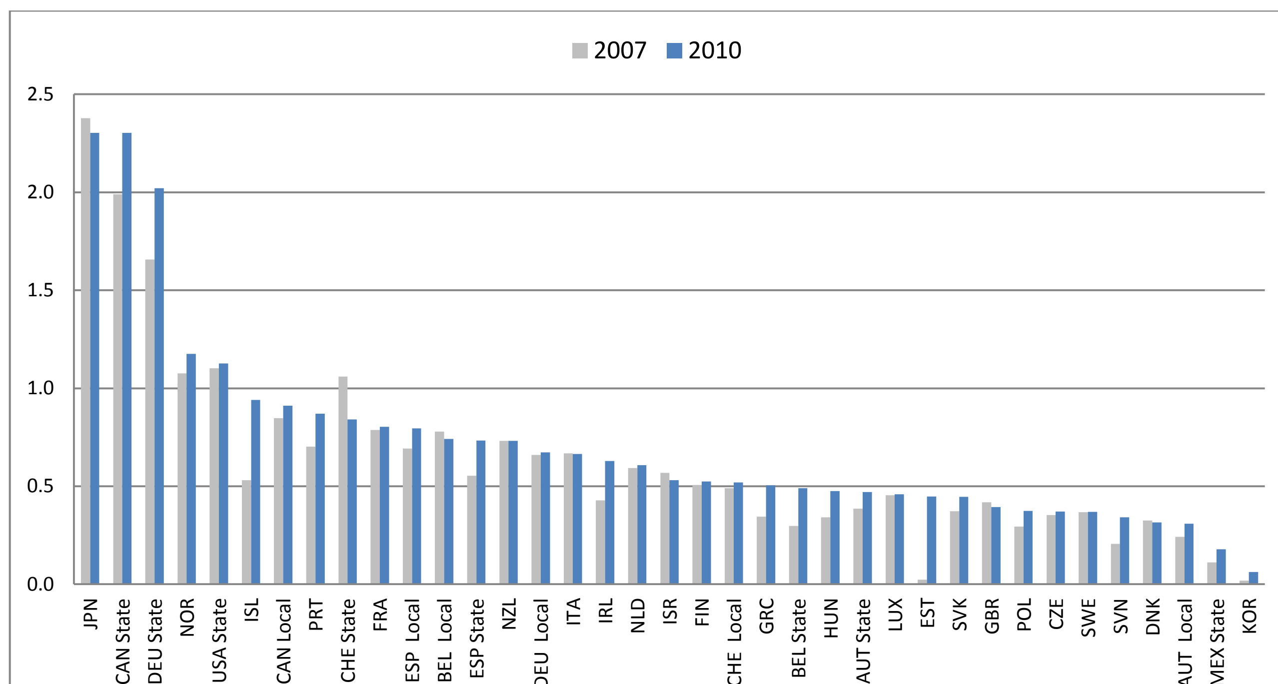
Sub-national governments' (SNGs) financial situation has deteriorated since 2007. In 2010, SNGs represented 16% of public debt and almost 17% of public deficits in OECD countries (OECD-KIPF, 2011). They can thus play a key role in supporting or impeding national fiscal consolidation. After implementing large stimulus packages and often supporting SNGs during the crisis to avoid them carrying out pro-cyclical policies, central governments (CGs) are now fighting to reduce their deficits and debt. This reversal has been particularly difficult for SNGs, still reeling from the consequences of the crisis and now watching the special measures taken by CGs to support them peter out. As a result, SNG deficits and debt rose in most countries, often going beyond what is permitted by self-imposed or central government imposed fiscal rules (Figures 3.1 and 3.2).

Figure 3.1. Evolution of SNG budget balances as a share of GDP, 2007-2010



Source: OECD National Accounts

Figure 3.2. Evolution of SNG debt as a share of SNG revenues



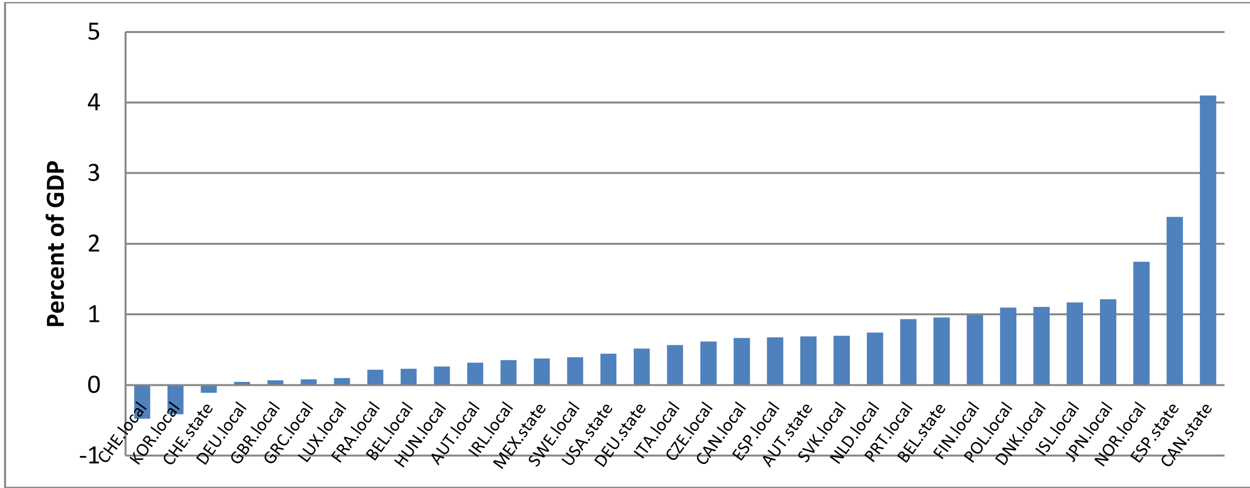
Notes: Data for Australia, Israel and New Zealand are consolidated. Data for Australia, Austria, Czech Republic, Estonia, France, Germany, Ireland, Israel, Italy, Japan, Luxembourg, Mexico, Netherlands, Poland, Slovak Republic, Spain and the United States correspond to 2009 instead of 2010. For Switzerland data correspond to 2008 and for New Zealand to 2007.

Source: OECD National Accounts

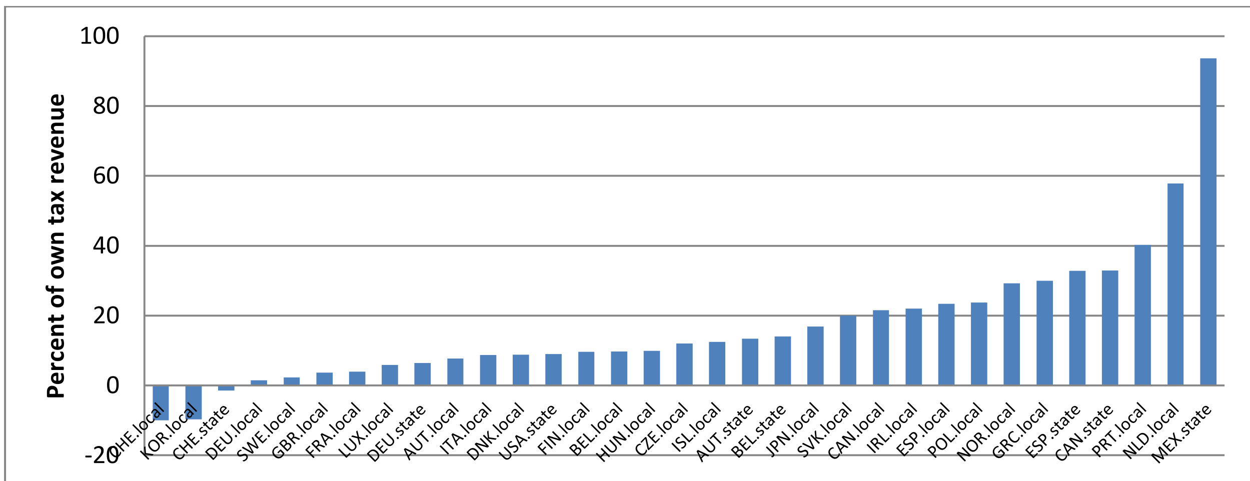
In such a context, SNG consolidation needs to stabilise the debt-to-GDP ratio are often considerable. The OECD Network on Fiscal Relations across Levels of Government has calculated the sub-national fiscal gaps (*i.e.* the immediate and permanent improvement in the primary balance that is required to ensure that debt-to-GDP ratios are back at their 2007 levels by 2026). The values of sub-national fiscal gaps is smaller than those of national governments in relation to GDP (Figure 3.3a), but this has to be set against the fact that SNGs usually have much lower revenue-raising capacity than CGs. These fiscal gaps often represent large shares of SNG tax revenues (Figure 3.3b). In Portugal, the Netherlands and Mexico (State), they represent more than 50% of SNG tax revenue.

Figure 3.3. SNG Fiscal Gaps (to 2007)

a. Fiscal gaps expressed in % of GDP



b. Fiscal gaps expressed in % of SNG tax revenue



Source: Blöchliger (forthcoming), "Fiscal Consolidation at Sub-national Level", working paper prepared for the November 2011 Fiscal Network meeting.

Beyond the variety of risks related to SNG debt (Box 3.2), SNGs' fiscal situation may affect the evaluation of CG's possibilities to consolidate and thus threaten the credibility of CGs' consolidation plans. In Spain, the failure of the autonomous communities[13] to comply with their deficit targets in 2011 reduced the country's credibility, and was one of the factors leading to a downgrade of Spanish government debt by Moody's in February 2012. In addition, restrictions on SNG borrowing and SNG financial difficulties can create incentives to resort to financial mechanisms that give rise to a build-up of contingent or hidden debt. In Spain, municipalities owe EUR 30 billion to suppliers and autonomous communities EUR 18 billion, and the average payment delay is 500 days. In addition, state corporations (including local public enterprises) may hide an extra EUR 32billion debt (*Financial Times*, 27 February 2012). At times, concern about such possible contingent liabilities has reportedly added to the financial markets' pressure on some countries (*e,g.* Italy).

[13] Autonomous communities are the regional/state level of government in Spain.

Box 3.2. Potential risks of sub-central government debt

- **Debt creates externalities across levels of government.** Sustainability is determined by the joint actions of all governments. An individual government increasing its debt – even modestly – increases general government debt, thereby affecting interest rates and budget balances. The dynamics of this common pool problem are even more pertinent if discontinuities or threshold effects are present, i.e. if interest rates are suddenly rising or growth rates falling once a certain general government debt level is exceeded.
- **The risk of contagion can disrupt financial markets**. Financial problems in a few and even very small SNGs can have large repercussions on the functioning of markets for municipal bonds and lead to a rise in risk premia. Financial difficulties in a few SNGs may be contagious, spreading fear of a general malaise at the sub-national level.[1] Keeping debt thresholds relatively low for all SNGs reduces risk and uncertainty, making financial markets confident that local and regional governments are not a general case of concern.
- **Flexibility (or fiscal space) to adapt fiscal policy is generally more restricted at the sub-national than at the CG level**, making debt reduction difficult to achieve. With only 17% of general government tax revenue, space for SNG tax revenue increases is restricted. Tax competition may put additional limits on the scope for revenue rises. Many CGs put additional restrictions on tax autonomy, i.e. the right to introduce or abolish taxes or to change tax rates. Finally, SNG spending often concerns politically sensitive policy areas such as health care and education, where policy reforms are difficult. The lack of fiscal flexibility may suggest prudent debt levels since an increase in debt may be hard to reverse.
- **SNGs often own public enterprises whose debt is not accounted for in the *National Accounts* and which create contingent liabilities**. In most countries, SNGs are owners or co-owners of infrastructure companies for water, energy, transport and the like. In several countries, states or regions are holders of public banks which also provide credit to public enterprises, municipalities, thus concentrating rather than spreading risks.[2] SNGs owning public enterprises need to improve transparency, especially on the effective debt levels they are exposed to.
- **Finally, in most countries, CG is held responsible for SNG debt, often taking on the form of implicit or explicit bailout guarantees**.[3] SNGs expecting a bailout may then engage in unsustainable debt policy, thereby potentially increasing general government debt. The long-term implications with regards to the behaviour of SNGs facing a potential bailout have to be taken into account carefully when assessing maximum SNGs debt levels.

1. Switzerland provides an interesting example for the small cause-big effect case. The default around the year 2000 of a small municipality – less than 0.05% of national GDP – caused the municipal bond market almost to collapse. Uncertainty about the fiscal situation of unaffected municipalities cut the municipalities from new liquidity and brought the body that managed municipal bonds into serious difficulties. It took municipal bond markets more than 1.5 years in order to return to normal. Also, fears of municipal defaults in summer 2011 led to rising interest rates for municipal bonds in the United States.

2. Defaults of state-owned banks have led to protracted financial difficulties for individual sub-central governments in Germany, Switzerland and the United States.

3. For example, Danish municipalities receive specific financial help from central government if they get into financial difficulties, and they are put under administrative control (Mau-Pedersen, 2011). In Germany, the constitutional court had ruled that the federal government had to help out two *Länder* (states) which were in financial distress.

Source: Blöchliger (forthcoming), "Fiscal Consolidation at Sub-national Level", working paper prepared for the November 2011 Fiscal Network meeting.

SNGs represent on average 30% of public spending, and are often key providers of important public services. They represent almost 60% of spending on education and above 30% in health. Social protection (on average 16% of SNGs' expenditure) has increased during the crisis and is expected to rise in the coming years, as it includes sickness and disability, old age, family and children, unemployment, social housing and social exclusion. The crisis followed by consolidation plans may therefore reduce SNGs' financial capacity to deliver key public services. Sub-national governments also play a critical role in public investment. In the OECD area, 65% public investment occurs at the sub-national level (OECD 2011). Local public investment, after being stimulated in 2008-09, is now a target of cuts in many regions

and one of the main adjustment variables of the sub-national budget. Until early 2010, capital expenditure remained relatively high, as many SNGs adopted anti-cyclical measures, often supported by CGs (OECD 2011). Since 2009-10, this trend has been reversed and public investment is being cut by SNGs in many countries, especially high-debt countries. This may prevent SNGs from playing a more active role to support growth (Allain-Dupré *et al*., forthcoming).

3. National consolidation plans may affect SNGs either directly or indirectly

Many CGs are now cutting or freezing their transfers to SNGs. In some countries (Finland, France, Greece, Hungary, Italy, Ireland, Portugal, Sweden and the United Kingdom), transfers were discretionarily reduced as a result of CG consolidation plans (Table 1). Ireland was one of the first countries to reduce transfers to SNGs: in 2009, they were reduced by 15% and by 18% in 2010. The most significant reductions were in earmarked grants for infrastructure. In 2010, France froze the main transfer to SNGs, the *dotation générale de fonctionnement* until 2013. In Greece, CGs transfers to SNGs increased, but at the same time, new responsibilities have been transferred to them, making it difficult to estimate the net increase/decrease in transfers. In other countries (Belgium, Spain, Turkey), transfers have decreased automatically, because the formulae are based on CG revenues, which have decreased. Finally, some temporary transfers set in by CGs to support SNGs during the crisis have come to an end, thus negatively affecting the flow of transfers (Canada).

Table 3.1. Examples of discretionary reductions in transfers

	2009	2010	2011	2012	2013	2014
Estonia (million euros)	-84.11	+2.34	+9.59	0	0	0
Finland	+7.5%	+6.8%	The CG has announced that it will reduce the grants by 631 million euros during the government term (2011-15)			
France		Freeze of the value of the transfers at 2010 level	Freeze of the value of the transfers at 2010 level	Freeze of the value of the transfers at 2010 level		
Greece (million euros)			3.6 (total amount)	+98 (variation from the previous year)	-344	+178
Hungary (in nominal currency) *As % of SNG revenues*	113.3 *-3.6%*	-49.1 *-1.5%*	-110,7 *-3.5%*	fiscal planning in progress		
Italy, ordinary regions **Italy, provinces** **Italy, municipalities (>5000 inhabitants) (million euros)**			-4000 -300 -1500	-4500 -500 -2500		
Ireland *As a % of SNG revenues*	-15% *+3%*	-18% *+4%*				
Portugal *As a % of SNG revenues*	-22 *-0.2%*	+51 *0.5%*	-146 *-1.4%*	-178 *-1.7%*		
Sweden (billion SEK)		+17	-9	-3		
United Kingdom (English LAs) (million GBP)	+3020	+2659	-2259	-1150	-1783	-633

Source: OECD Fiscal Network questionnaire

Some of the measures taken by CGs to reduce their budget deficits may have indirect impacts on SNGs. Several countries increased the rate of shared taxes (such as VAT), thus benefiting SNGs (Austria,

Canada, Czech Republic, Spain). In other cases, as a measure to stimulate the economy, the CG increased tax allowances on shared taxes, thus reducing SNG revenues. This was the case in Portugal in 2009 and 2010, when the CG increased the basic tax allowance on personal income tax and implemented an employee tax credit. Since 93.8% of personal income tax revenues are transferred to local governments, this measure significantly decreased revenues of local governments. Some national reforms, such as labour market, pension or social security reforms implemented by CGs may also indirectly affect SNGs: the Czech amendment of the Labour Code which increases employment flexibility also benefits SNGs. In Spain, the CG has implemented spending cuts which are applicable to all levels of government, the most remarkable being a general reduction of public wages of 5%. In Greece, the “new unified salary framework” for the public sector (reduction in wages, increase in working time, increase in retirement age) also applies to SNGs. Reforms in the pension systems, and in particular in retirement age also affects SNGs (Australia, France, Spain and United Kingdom).

Some CGs try to protect priority sectors from spending cuts (mainly education, health and social protection). In Estonia, social welfare grants are protected, and in the Slovak Republic, wages in the education sector are preserved. In Italy, the Internal Stability Pact rules exempt a number of sectors such as health or projects co-financed by the European Union. In the United Kingdom, earmarked grants for health and education have been preserved. Still, in some cases, cuts in sensible sectors such as education or health are still envisaged, as they represent the lion’s share of SNG expenditure (Spain).

4. Role of SNGs in national consolidation plans

Most countries require SNGs to participate in national fiscal consolidation efforts, by introducing budget deficit targets and/or expenditure limits (Tables 2 and 3). In Belgium, at the end of 2009, the CG and SNGs agreed on a target for 2009 and 2010 in order to limit deficits at the different government levels. For 2010 and 2012, budgetary objectives that are consistent with the stability programme have been estimated, but no formal agreement has been reached. However, these objectives are used as reference by some of the SNGs. After 2012, no fiscal target has been assigned specifically to the Regions and the Communities. The last stability programme of Belgium (April 2011) only mentions a global fiscal surplus that must be reached by states and municipalities, intended to compensate a federal deficit of the same magnitude and thus reach a balanced budget for the whole country. In Denmark, a zero growth in expenditure has been set for municipalities in 2011 (unchanged levels in real terms compared to 2010). The target applies to the municipalities as a whole (*i.e.* the average municipality).

Table 3.2. SNG deficit objectives (as % of GDP)

	2010	2011	2012	2013	2014	2015	2016
Austria (state and local)		-0.7%	-0.5%	-0.4%	-0.3%	-0.1%	0%
Belgium	-0.56%	-0.3% (reference)	-0.2% (reference)	+0.2% (target)	+0.8% (target)		
Czech Republic	-0.30%	-0.50%	-0.30%	-0.20%	0%		
Poland	-1.1%						
Slovenia	-4.8%	-5.2%	-3.7%	-2.8%	-1.9%		
Spain (state level)	2.40%	1.30%	1.30%	1.10%	1%		
Spain (local level)	-0.60%	-0.80%	-0.30%	-0.20%	0%		

Source: OECD Fiscal Network questionnaire

Table 3.3. SNG expenditure reduction targets

	2010	2011	2012	2013	2014
Italy (% cut compared to 2007-09 average)		-5%	-13%		
Slovak Republic (million €)	-567.112	-162.164	-76.98	-143.552	-223.986
UK (English Local Authorities) (million £)	28.534	26.145	24.411	24.210	22.860

Source: OECD Fiscal Network questionnaire

In highly decentralized countries, CGs cannot always impose deficit targets on SNGs (Germany, Switzerland), and in many cases, CGs have little scope for action on municipalities, which tend to be the agents of the regional/provincial tier of government. Nevertheless, CGs can try to influence the policies of SNGs to encourage them to return to balance in medium-term. This is the case in Canada, where all provinces and territories have announced plans to return to balance, with 12 out of 13 jurisdictions committed to doing so by 2014-15 at the latest. Ontario, which has been severely affected by the recession and is expecting only moderate growth going forward, is projecting a return to balance by 2017-18. Alberta is projecting a return to balance by 2013-14.

Enforcement of fiscal rules has been tightened. In Italy, the Internal Stability Pact's enforcement has been strengthened by a wide range of sanctions implemented from 2011. For example, regions breaking the rules may not be allowed in the following year: 1) to commit current expenditure (net of health) beyond the minimum commitment of the last three years; 2) to issue debts for investment purposes; 3) to hire new personnel; 4) to hire external managers; 5) to issue bonds and take out loans; 6) they may even experience a reduction or suspension of financial transfers from the CG. Reporting rules have also been tightened, in particular before elections. The audited financial statements of the regions must be published on regions' websites. If the results are not consistent with the Internal Stability Pact, heavy sanctions may be imposed on the political officers, such as automatic disqualification from office, and a ten-year interdiction from office and ineligibility period. In Spain, the autonomous communities missed their deficit target by a wide margin in 2011. As a result, the Minister of Finance proposed a gradual implementation of sanctions, ranging from retaining CG transfers, imposing penalties, or ultimately imposing a restructuring plan.

In countries where SNGs have some degree of tax autonomy, they often increase their own taxes and/or fees to meet these targets (Australia, Belgium, Canada, Czech Republic, Denmark, Estonia, Finland, Greece, Hungary, Italy, Poland, Spain, and the United Kingdom). Of course, this is only possible in countries where SNGs have some autonomy to alter either the rate of the base of some taxes. In Belgium, SNGs eliminated tax breaks that had been implemented in previous years. In 2010, the Flemish Community, in particular, abolished a tax cut that had been introduced in 2009 for all workers ("job korting"). In Spain, autonomous communities and, to a lesser extent, local governments are spontaneously increasing some taxes, as well as taking measures on the spending side. In particular, some autonomous communities have increased the rates of: taxes on property transactions; personal income tax (for high income earners); tax on retail sales of oil products; duty on specific means of transport (tax on the registration of new vehicles, boats and planes). Some autonomous communities have also established new environmental taxes. The movement towards higher taxes in local governments is less pronounced than for the autonomous communities. In this regard, an important measure will be the approval of new real estate values, which will provide higher receipts for the main local tax (tax on real estate property). Some countries also report an increase in fees (Austrian municipalities, Greece, English local authorities). In Greece, local governments do not have tax autonomy, and can use fees to finance the services they provide.

When SNGs do not have tax autonomy, CGs often balance stricter deficit requirements by increasing the rates of taxes allocated to SNGs or giving these greater autonomy in setting the rates. In the Czech Republic, real estate tax rates (exclusive income of municipalities) were doubled under the consolidation measures approved at the end of 2009. The exemption from property tax for new buildings was cancelled in 2010. In addition, municipalities have been allowed to set local coefficients for real estate tax calculation since 2008 (real estate tax is calculated as a multiple of area, real estate tax rate, statutory coefficient and local coefficient). Revenues of municipalities were further raised by increasing the rates and by extending the tax base for accommodation fees collected by them.

Fighting tax evasion to increase SNGs revenue is also explored. In Ireland, initiatives are being taken by the SNGs to ensure that all owners of non-principal private residences are paying the appropriate charges. In Spain, autonomous communities are developing instruments to reinforce co-operation between the different tax administrations to reduce tax evasion: exchange of information among administrations; sharing fiscal information to improve auditing; and developing software to improve auditing of selected taxpayers. Co-ordination bodies between the CG tax administration and sub-national tax administrations play also a very important role in fighting against tax evasion, specifically of the building industry. In Greece, a 2010 law transferred the monitoring and enforcement of tax and fee collection responsibility to the Court of Auditors, as local political leaders are not seen as relevant actors to carry out this task. In Canada, only Quebec collects all of its own revenues, and estimates it will collect an additional CAD 1.2 billion per year by 2012-14 from measures to combat tax evasion and tax avoidance. Italian CG tries to increase tax compliance by giving incentives to local governments to fight tax evasion, such as allowing them to keep up to 100% of the additional sums collected in their territories.

In addition to attempting to raise their revenues, several SNGs are cutting expenditure and seeking efficiency gains (Canada, Estonia, United States). The states in the United States have started consolidation policies since the very first days of the crisis (2008), due to their constitutional obligation to have balanced budgets. They have taken measures such as cutting personnel, reducing health and social benefits, but have also cut their transfers to lower tiers of government, thus creating a cascade effect in local governments, counties, cities, etc. (Vammalle *et al.*, 2011). In Canada, provincial consolidation measures mostly consist of wage restraint and payroll freeze for the public service. According to February 2012 projections, the program spending in 2011-12 will increase by 3.1%, well below the annual average growth of 6.3% observed between 200-01 and 2010-11. Most provinces also project their program spending to grow by less than 3% per year throughout their forecast horizons. In Estonia, the CG recommends that operating costs be frozen, while allowing investment expenditure to grow, but cannot impost this principle to SNGs. In Italy, the CG seeks efficiency gains by encouraging municipal cooperation: it proposes a financial reward, conditional to the setting-up of a “regional unit for purchasing” responsible for tender procedures for the provision of goods and services.

5. A renewed interest in fiscal federalism reforms

The crisis and present consolidation needs have led most countries to carry out or plan structural reforms of the fiscal relations between levels of government in order to seek efficiency gains, and/or reinforce equity and the smooth provision of public services by SNGs. These reforms touch upon different aspects of the fiscal relations across levels of government:

Reforms of the financing system of SNGs:

- **Equalisation reforms**. The crisis and ensuing fiscal consolidation could influence equalisation flows if they affect regional economic growth and therefore the regional distribution of wealth differently. In addition, in times of decreasing resources, it seems that increasing equity in their distribution is a frequent concern. An equalisation reform took place in Estonia in 2009. Equalisation was reinforced in France with the creation of the new equalisation fund in 2011 and

the creation of an intercommunal and communal fund and the reinforcement of the capital region fund in 2012. In Belgium, institutional negotiations underway are likely to change fiscal relations between the different governments. This future reform is expected to improve the burden sharing of the consolidation efforts, particularly to deal with the future ageing costs which today are mainly carried by the federal government. One of the reform's objectives is to ensure fiscal sustainability of each level of government. In the Czech Republic, an amendment to the Act on Budgetary Allocation of Taxes is under preparation and is expected to come into force at the beginning of 2013. It should improve the financial situation of the municipalities with the lowest income per capita at the expense of the four biggest cities, and introduce a new criterion in the grant sharing formula (the number of pupils).

- **Grant system reform**. In the Czech Republic, in addition to the tax reform (equalisation), contributions for delegated state administrations were increased. The aim of this was to remove an imbalance between the size of spending on delegated agendas and grants provided by government. In Finland, the present government has announced its intention to reform the grant system but the details are still undecided. In England (UK), reductions in spending were matched by a radical reform programme which gave local authorities unprecedented freedoms and flexibilities and more control over budgets. Earmarking was abandoned, except for school grants and protected public health grants. Funding has also been simplified and streamlined by rolling grants into the main general purpose formula based grant. The number of grants has been reduced from more than 90 to less than 10.
- **Local tax system reform**. France made a major reform of the financing system of SNGs in 2009 (Box 3.4). In Ireland, SNG revenue stream will be broadened by the introduction of a household charge in 2012, and proposals are underway to develop plans relating to property tax and domestic water charges. The Slovak Republic envisages a change in the composition of shared taxes: at present, only a share of the personal income tax is transferred to local governments. Given the relatively strong pro-cyclical nature of this tax, the past experience has shown high fluctuations in its revenues. In order to increase the predictability of local government revenues, the revenues from four major taxes will be shared (personal income tax, corporate income tax, value added tax and excise taxes).
- **Fiscal federalism reform**. In 2009, Italy started reshaping the framework which governs financial relations between levels of government. The new framework aims at giving more tax autonomy to SNGs in exchange for increased equalisation (Box 3.5).

Reform of fiscal rules:

- **New fiscal rules**. In 2009, Germany introduced a "debt brake" in its Constitution (*Grundgesetz*) to ensure that sub-national budgets are financed without any structural deficits from 2020 on, with only a small structural deficit allowed for the federal budget (0.35% of GDP). In addition, a new instrument, the Stability Council, was instituted to survey all public budgets on an annual basis using common benchmarks, to monitor public borrowing and to coordinate medium-term financial planning within multi-level government. In Spain, an amendment to the Constitution was adopted in 2011, to reinforce the target of fiscal consolidation for all Spanish administrations, following the EU framework. The main feature of the reform is that neither the CG nor the Autonomous Communities will be allowed to have deficits which exceed the maximum set by the EU, and local governments are required to balance their budgets. The maximum structural deficit will be set according to an Organic Law as a percentage of GDP (this Law must be passed before 30 June 2012). This limit will only be in force from 2020 onward. Strengthening of fiscal rules is also under discussion in the Slovak Republic.

Organisational reforms:

- **Reallocation of tasks and responsibilities**. In Hungary, work on development of a new Local Government Act is in progress, in which the tasks and competencies are divided between the state and local government with the permission of CG (state aid and borrowing limits, debt ceilings, borrowing limited to investment for development). Greece carried out a major reform of its fiscal relations across levels of government in 2011, granting local governments new responsibilities (Box 3.3).
- **Municipal mergers and territorial organization reforms** are promoted in several countries (Finland, France, Greece, Ireland and the United Kingdom). Greece has reduced the number of local governments from 1 038 to 325 in 2010. The increase in the size of entities is expected to increase administrative capacity and thus reduce the costs. In Ireland, a number of mergers of local authorities have been announced to take effect from 2014. Shared services and shared administrative area initiatives are being explored as instruments to increase efficiency. France has initiated a reform of its territorial organisation in 2010 (Box 3.4).

Although reforms of the fiscal relations across levels of government are meant to make these more efficient, more equitable and more stable, they often face stiff political resistance. Past experience shows that some of the envisaged and necessary fiscal reforms were watered down, postponed, or even abandoned. But the need of reform will not wither: it will become even more pressing in the coming years, as state and local governments will have to face an increasingly heavy burden of fiscal consolidation. However, policymakers may be able to reduce opposition and to secure a majority in favour of the reform, by adapting the design of the reform: influencing the timing, the scope and the sequencing of the reform process (Blöchliger and Vammalle, 2012).

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