

Growth-Promoting Fiscal Consolidations – Lessons from International Experience

Discussion of paper by Zsolt Darvas

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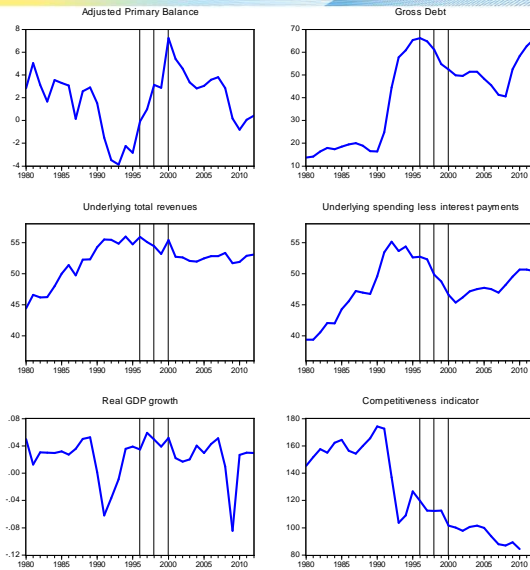
Hungarian Presidency: High-level Economic Policy Seminar on
“Economic Growth and Fiscal Consolidation”, Budapest

30 March 2011

Short-run impacts on growth

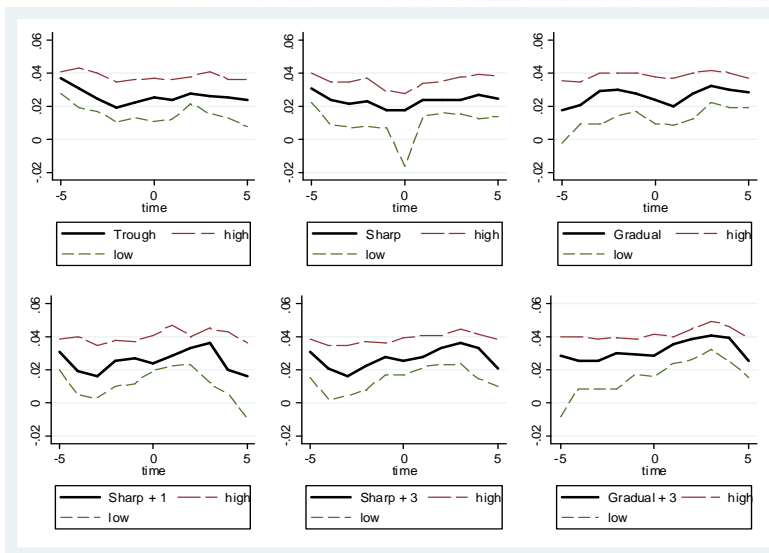
- Multiplier-type effects
 - Short-run contractionary impact
 - Asymmetries (monetary policy and financial markets)
 - Alone or simultaneous
- Non-Keynesian effects
 - Key messages not in dispute

Different consolidations



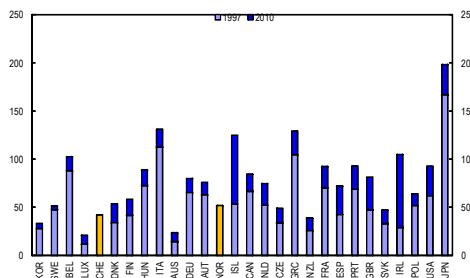
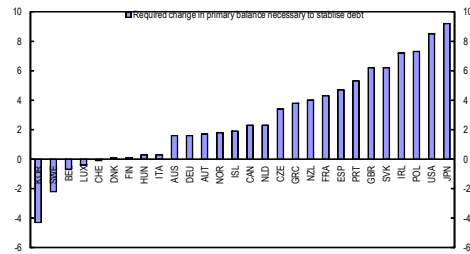
Finland – 3 episodes of “expansionary fiscal contractions”

Consolidations and growth



Growth before and after fiscal consolidation, based on different definitions
Bottom panels when consolidation succeeds in stabilising debt at time $t + 1$ or $+ 3$

Today's challenges



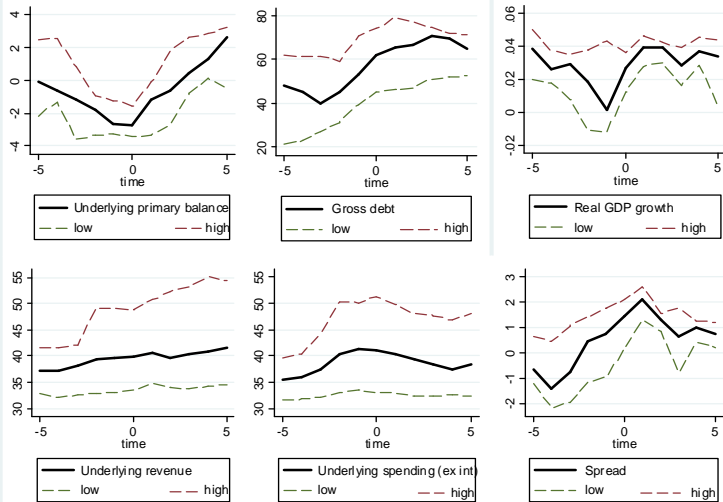
Top panel – required change in the primary balance as % of GDP to stabilise debt
 Bottom panel – gross debt as percent of GDP. OECD Economic Outlook 88

Potential future challenges

- Pensions
 - Up to 3.5 % of GDP by 2025
- Health and long-term care
 - Up to 2.7 % of GDP by 2025
- Contingent liabilities



Large consolidations



Developments before and after the start of large consolidations, based on trough-to-peak of underlying primary balance

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Supporting consolidation

- **Econometric evidence (Molnar)**
 - Fiscal rules (combinations of spending rules and budget balance requirements)
 - Spending cuts associated with debt stabilisation (large consolidations are associated with rises in revenue as well)
 - Growth
 - Interest rates



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Challenges

- Sustained effort needed
 - Reduce debt
 - Create fiscal space

 - Enhance efficiency to support long-term growth
 - Less-distortionary taxation/user fees
 - More efficient distributional instruments
 - Greater spending efficiency
 - Structural reforms

Thank you

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