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## PRESS RELEASE

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### **Strategies and measures aimed at consolidating public finances**

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The financial crisis and the resultant economic recession have seriously undermined the health of public finances in almost all the developed economies. Budget deficits and public debt have risen sharply and these budgetary problems will not disappear automatically once the economy has fully recovered from the recession. On top of this, the budgetary impact of the ageing of the population could drive up budget deficits and cause public debt to rise even more quickly.

To restore the sustainability of public finances, extensive consolidation efforts are required in a wide range of countries. Although a rapid and significant consolidation effort implemented simultaneously by a large group of countries could act as a brake on the economic recovery to some extent, a postponement of consolidation efforts, on the other hand, could shake the confidence of economic agents, give rise to financing risks and trigger a strong rise in interest rates. To remove doubts about the creditworthiness of countries, it is therefore advisable not to delay the announcement of concrete and credible austerity plans, even if the measures will only be implemented in the years to come. The timing and scope of consolidation efforts are dependent on country-specific circumstances.

The scope of the consolidation efforts needed in most countries means that no limitations can be imposed with regard to the composition of consolidation plans. However, preference needs to be given to structural measures that reduce non-growth-promoting government expenditure or can damp down the increase in ageing-related expenditure. In spite of the already heavy burden of compulsory taxation in many countries, extra government revenues cannot be ruled out.

Most countries have now begun preparing budgetary exit strategies. There is thus the prospect of budgetary objectives that will herald a return to healthy public finances. In some countries, concrete austerity measures have already been worked out in the meantime. In other countries, plans of this type have yet to be detailed. However, firm government action is urgently required for this latter group of countries too, all the more so since postponing the necessary consolidation efforts would entail major risks.