

Abstract

Cyclically Adjusted Budget Balance: The Case of Croatia

RESEARCH PAPER

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In this paper, after reviewing the concept, its applications and various methodological approaches, the size of cyclically adjusted budget balance is estimated in the case of Croatia for the period 1995:1q-2008:3q. Thereby, the ECB methodology is implemented and it is assumed that cyclically sensitive budget elements include income tax, profit tax, VAT, excise duties, social security contributions and unemployment benefits. The elasticities of cyclically sensitive budget components, with respect to their macroeconomic bases, are calculated with an error-correction model. The results of the exercise indicate that both periods of pro- and anticyclical fiscal policies have been present in the analyzed period with the restrictive and procyclical policy prevailing in the recent years.

Keywords: fiscal policy, government budget, cyclical adjustment, Croatia

JEL classification: E32, E60, E62

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