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The Relation Between the Cyclically Adjusted Budget Balance and the Growth Accounting Method of Deriving Net Fiscal Effort

[Zápal, Jan](#)

Year: 2007 Volume: 1 Issue: 3 Pages: 324-334

**Abstract:** This paper deals with the growth accounting method used to derive "net fiscal effort". Net fiscal effort can then provide a clue about whether fiscal policy is expansionary or not, and, together with data on economic performance, can answer the question of the pro- or anti-cyclicality of the fiscal stance. Traditionally, the answer to such questions has been provided via the cyclically adjusted budget balance. I argue that the relatively computationally intensive and data demanding process of estimation of the cyclically adjusted budget balance can be replaced by the simple growth accounting method without significant loss of information. I argue that in the general case, the answers provided via the growth accounting method will not differ widely from the conclusions provided via the cyclically adjusted budget balance. I then illustrate the use of growth accounting on Czech fiscal data and compare the outcomes of both methods. The conclusions reached in the empirical part fit nicely with the conclusions of the theoretical part of the paper.

JEL classification: C82, H62

**Keywords:** expansionary/contractionary fiscal policy, cyclically adjusted budget balance, growth accounting, net fiscal effort

RePEc: [http://ideas.repec.org/a/fau/aucocz/au2007\\_324.html](http://ideas.repec.org/a/fau/aucocz/au2007_324.html)

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