

The cyclically-adjusted budget balance used in the EU fiscal framework: an update

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The cyclically-adjusted budget balance (CAB) is the backbone of the EU framework of fiscal surveillance. Corrected for one-off measures and labelled then structural balance, it is the main indicator used for the assessment of country-specific medium-term fiscal objectives under the “preventive arm” of the SGP and of the fiscal adjustment imposed to Member States in excessive deficit position under the “corrective arm” of the SGP.

The cyclically-adjusted balance is computed to show the underlying fiscal position when cyclical (‘automatic stabilisers’). It corresponds to the budget balance prevailing if the economy was running at its potential. As a measure of the orientation of underlying fiscal policy, it may also be very useful to assess fiscal sustainability issues.

The Commission has recently improved the computation methodology of the CAB used in the EU's fiscal surveillance. The revised methodology has been implemented since the release of the Commission Autumn 2012 Forecast. The first improvement consists in employing a more precise concept to compute cyclical-adjustment parameter. The second amendment is the update of the decade-old data underlying the computation of the CAB. The paper reviews and explains in detail these recent improvements and describes the impact thereof on the CAB results. It also explains the different steps of the calculation for sake of transparency and easy reproducibility.