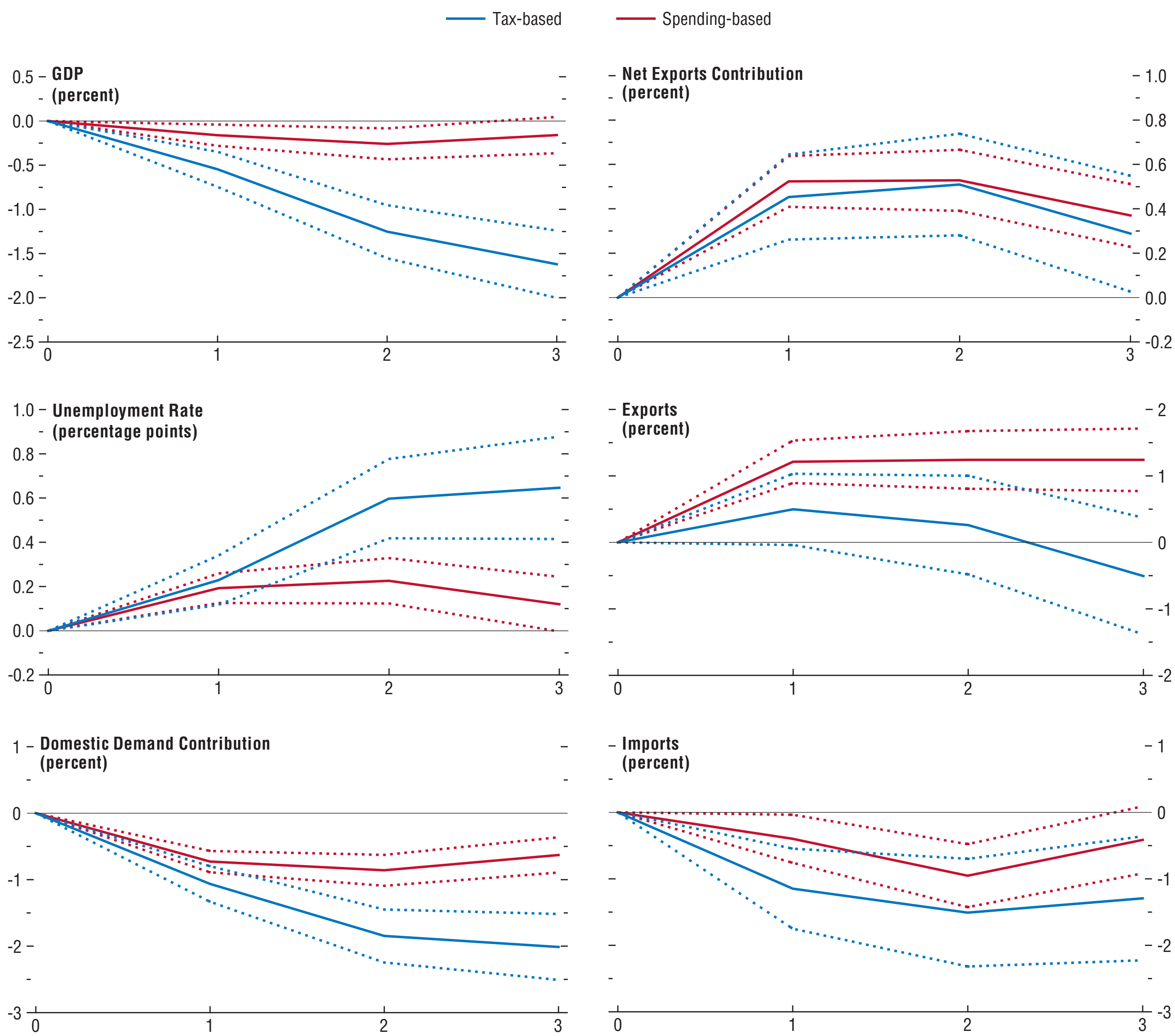
Figure 3.5. Impact of a 1 Percent of GDP Fiscal Consolidation: Taxes versus Spending

Spending-based consolidation is less contractionary than tax-based consolidation. GDP falls by less and unemployment increases less. Domestic demand contracts significantly as a result of both spending-based and tax-based consolidation, but the contraction is sharper after tax-based adjustments. A boom in net exports mitigates the contraction in both cases. A surge in exports drives the net export boom associated with spending-based consolidation. After tax-based consolidation, net exports rise mainly because imports fall.



Source: IMF staff calculations.
Note: t = 1 denotes the year of consolidation. Dotted lines equal one standard error bands.