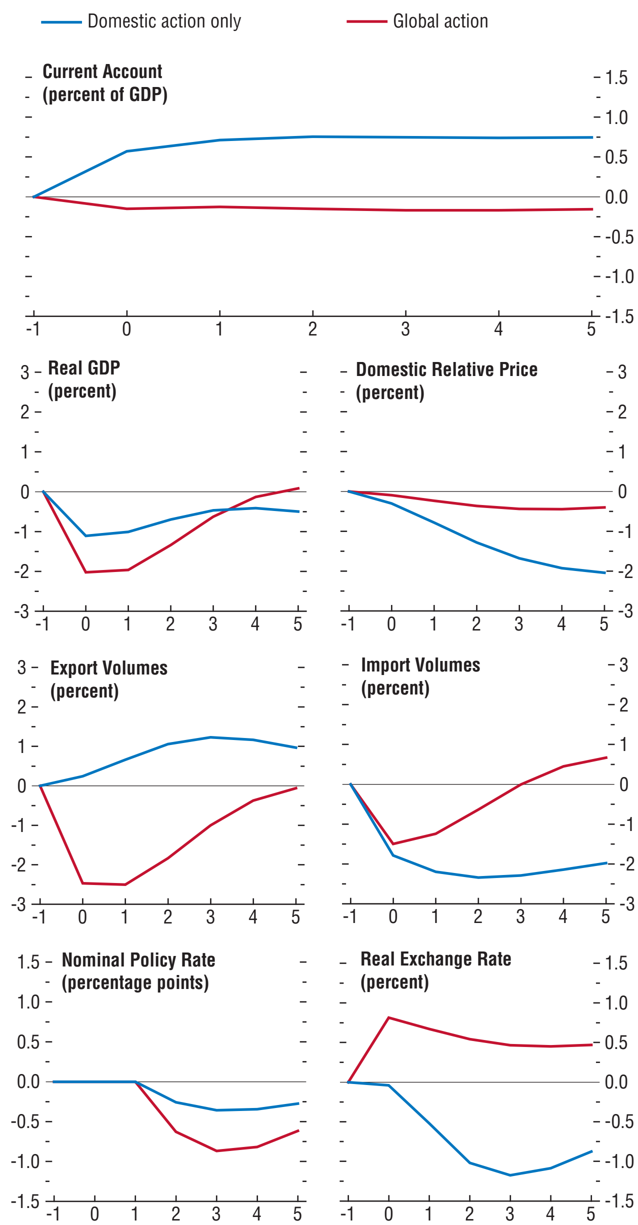
Figure 4.10. Effects of a Synchronized Global 1 Percent of GDP Fiscal Consolidation: GIMF Simulations

If all economies engage in synchronized fiscal consolidations of the same size, then there is little effect on the current account, and the short-term output contraction is larger. This is because it is not possible to have simultaneous real depreciation and current account improvement in all economies.



Source: IMF staff calculations.

Note: X-axis units are years, where $t = 0$ denotes the year of a 1 percent of GDP fiscal consolidation undertaken either by the domestic economy alone or by all economies together. The responses in the figures are model simulations for Canada from the IMF's Global Integrated Monetary and Fiscal Model (GIMF). Monetary policy is assumed to be constrained, with rates fixed for two years.