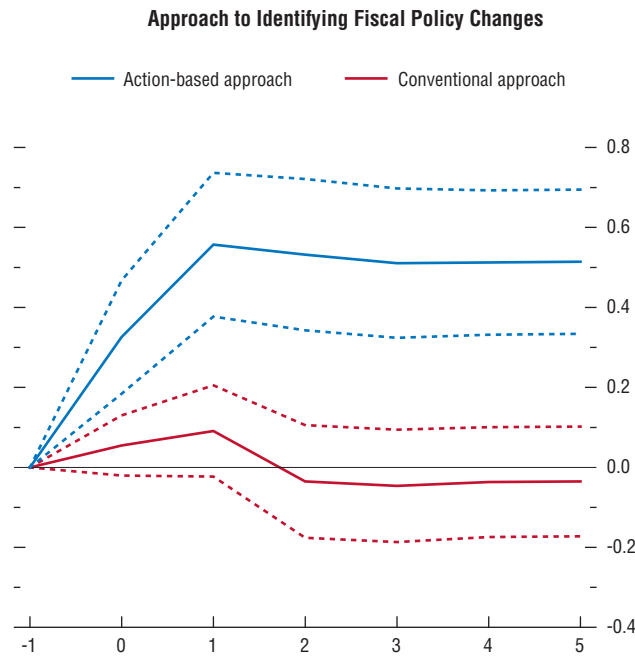


Figure 4.2. Effects on the Current Account of a 1 Percent of GDP Fiscal Consolidation
(Percent of GDP)

When fiscal policy changes are identified directly from historical records, the estimated effect on the current account is large and long-lasting. By contrast, estimates obtained using a conventional approach suggest fiscal policy has little effect on the current account.



Source: IMF staff calculations.

Note: X-axis units are years, where $t = 0$ denotes the year of consolidation. Dashed lines indicate the 90 percent confidence interval around the point estimate. The conventional approach shown here uses changes in the cyclically adjusted primary balance as the measure of change in fiscal policy. The results are broadly similar if the actual change in the overall fiscal balance is used instead. The effect of a fiscal expansion would be the reverse of the response to a consolidation.