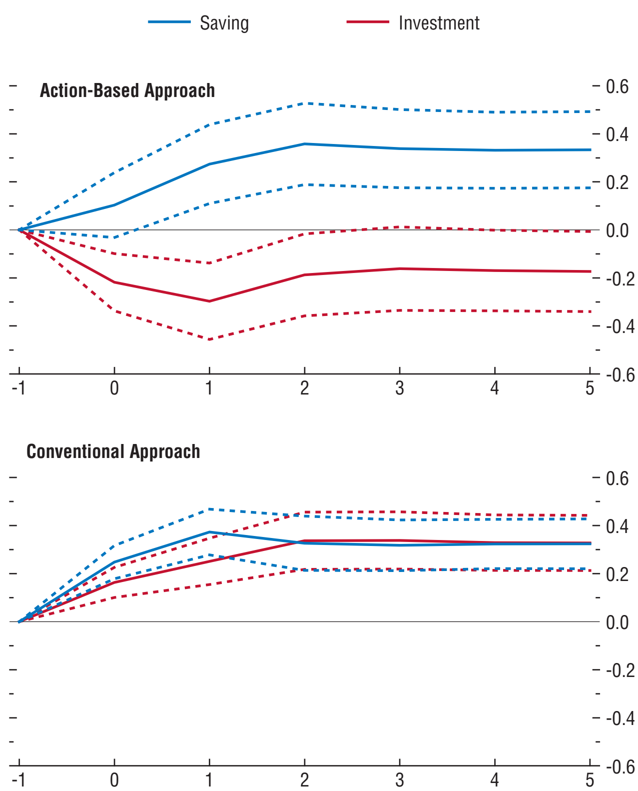
Figure 4.4. Effects on Saving and Investment of a 1 Percent of GDP Fiscal Consolidation

(Percent of GDP)

The current account adjustment in response to fiscal consolidation occurs both through an increase in saving and a fall in investment. Conventional approaches to measuring fiscal policy changes find a rise in investment following a consolidation, which offsets the rise in saving and reduces the 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. Fiscal policy changes are action-based. The effect of a fiscal expansion would be the reverse of the response to a consolidation.