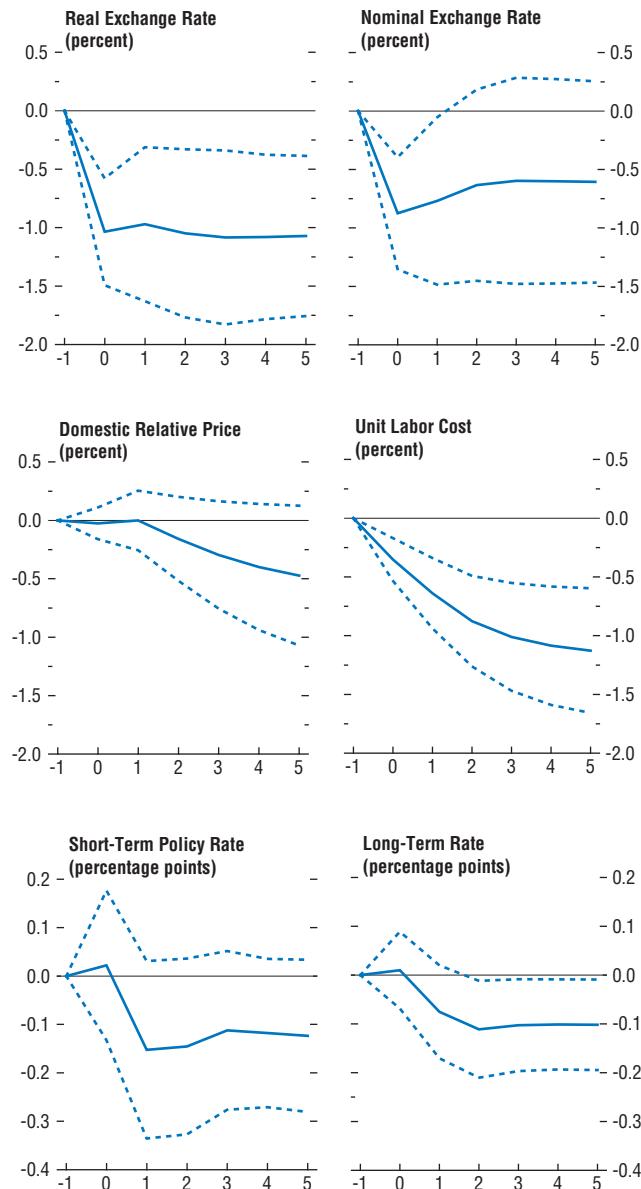


Figure 4.7. Effects on Exchange Rates, Prices, and Interest Rates of a 1 Percent of GDP Fiscal Consolidation

Behind the rise in net exports is a shift in the real exchange rate, driven by nominal depreciation and a decline in domestic relative prices. Interest rates tend to decline.



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 nominal and real exchange rates are indices of trade-weighted bilateral exchange rates (effective exchange rates). The domestic relative price is the difference between home and foreign price levels. Fiscal policy changes are action-based. The effect of a fiscal expansion would be the reverse of the response to a consolidation.