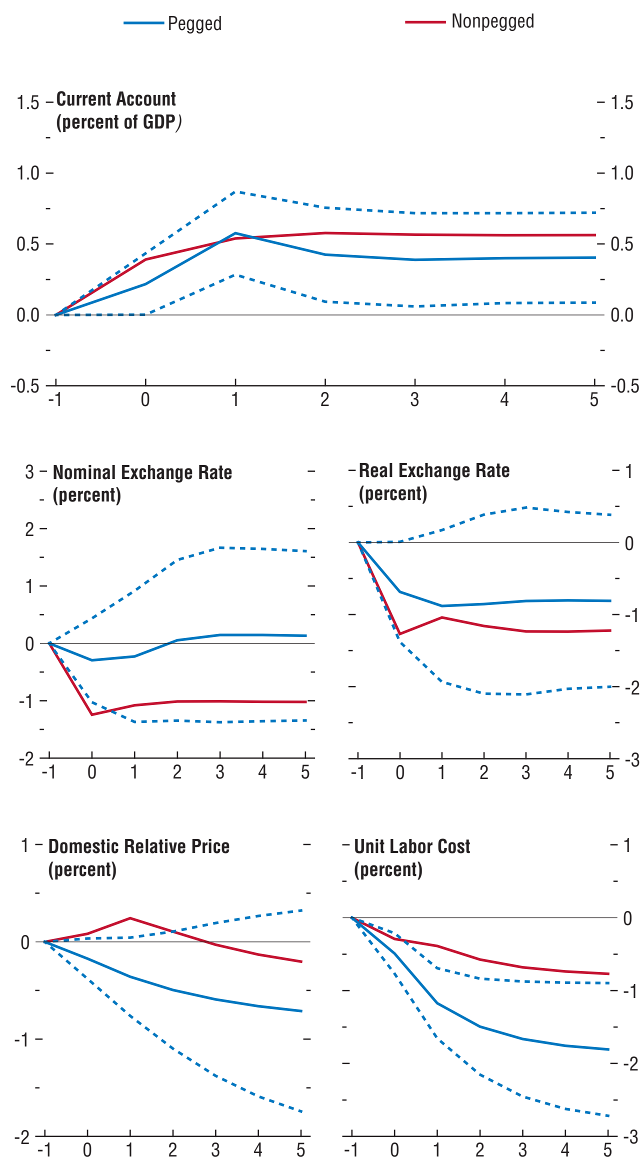
Figure 4.8. Effects of a 1 Percent of GDP Fiscal Consolidation under Pegged and Nonpegged Exchange Rate Regimes

Under a pegged exchange rate, the current account adjustment is just as large, but it is accompanied by a greater reduction of relative prices and unit labor costs.



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. Fiscal policy changes are action-based. The effect of a fiscal expansion would be the reverse of the response to a consolidation.