Figure 3.4. Impact of a 1 Percent of GDP Fiscal Consolidation on GDP Components (Percent)

Net exports typically expand in response to fiscal consolidation, providing a key cushion for GDP. In contrast, domestic demand contracts. The boom in net exports reflects both an increase in exports in response to the real exchange rate depreciation and a decline in imports reflecting the fall in income.

Source: IMF staff calculations.
Note: \( t = 1 \) denotes the year of consolidation. Dotted lines equal one standard error bands.