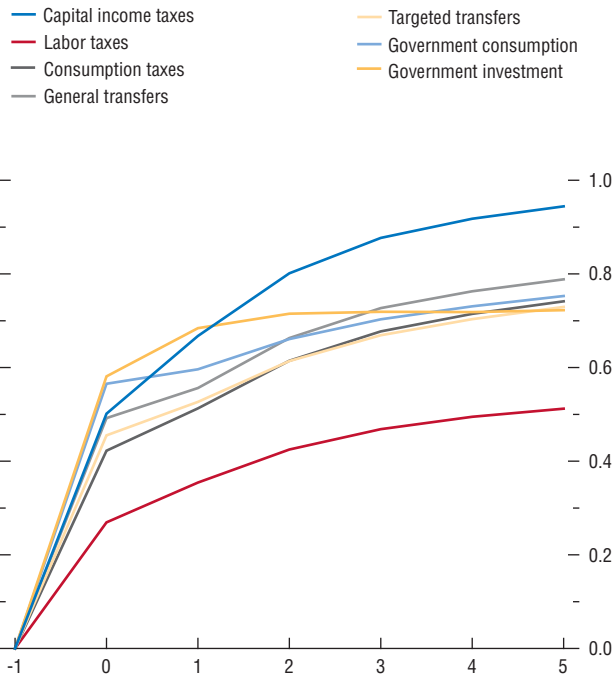


Figure 4.14. Fiscal Instruments and Their Effects on the Current Account

(Percent of GDP)

The response of the current account is similar for most fiscal instruments, ranging between 0.5 and 0.7 percent of GDP in the short term, and between 0.7 and 0.8 percent in the medium term. The current account response is somewhat smaller, both in the short and medium term, when fiscal consolidation is based on labor income taxes, and somewhat larger in the medium-term when fiscal consolidation is based on capital income taxes.



Source: IMF staff calculations.

Note: X-axis units are years, where $t = 0$ denotes the year of a 1 percent of GDP fiscal consolidation in the domestic economy. The responses in the figure are model simulations for Canada from the IMF's Global Integrated Monetary and Fiscal Model (GIMF). Monetary policy is unconstrained in all cases.