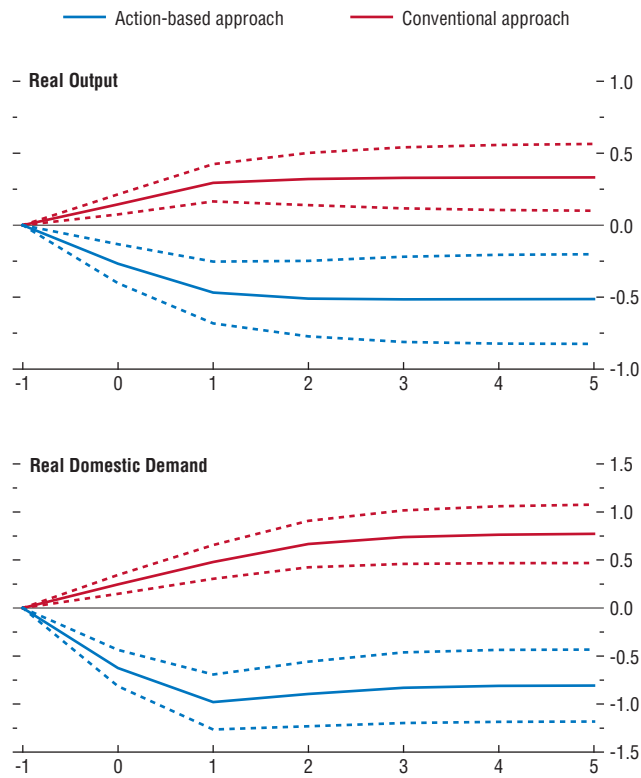


### Figure 4.3. Effects on Economic Activity of a 1 Percent of GDP Fiscal Consolidation

(Percent)

Fiscal consolidation typically has contractionary effects on output and domestic demand according to our action-based approach. By contrast, using a conventional approach suggests that the opposite is true.

#### Approach for Identifying Fiscal Policy Changes



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. The effect of a fiscal expansion would be the reverse of the response to a consolidation.