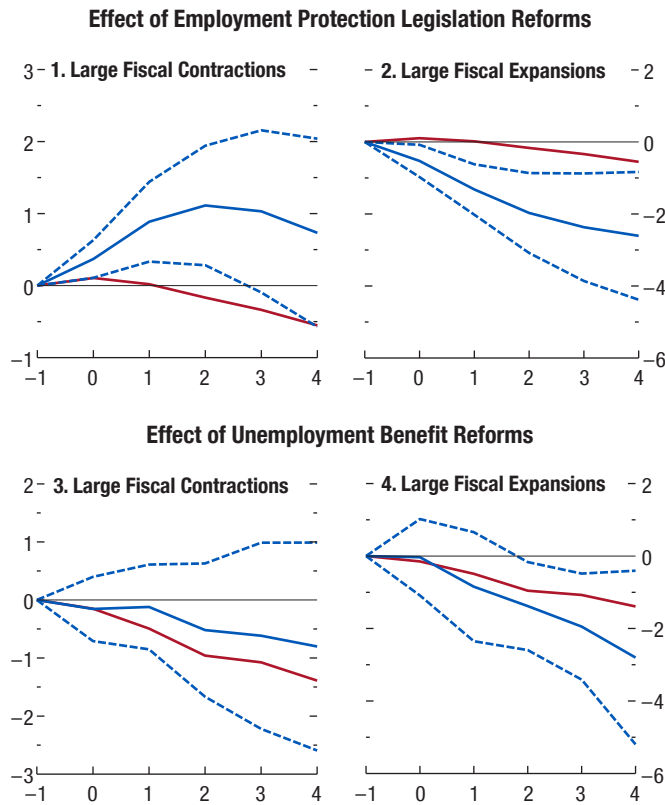


Figure 3.14. Role of Fiscal Policy in Shaping the Effects of Employment Protection Legislation and Unemployment Benefit Reforms on Unemployment
(Percentage points; years on x-axis)

Expansionary fiscal policy enhances the benefits from labor market reforms. During periods of relatively large fiscal expansions, reforms to employment protection legislation and unemployment benefits reduce the unemployment rate. In contrast, during periods of relatively large fiscal contractions, they have zero or adverse effects on unemployment.



Source: IMF staff estimates.

Note: $t = 0$ is the year of the shock. In panels 1 and 2, solid blue lines denote the response to a major reform in employment protection legislation. In panels 3 and 4, they denote the response to a major reform in unemployment benefits. Dashed lines denote 90 percent confidence bands; and solid red lines represent the unconditional result.