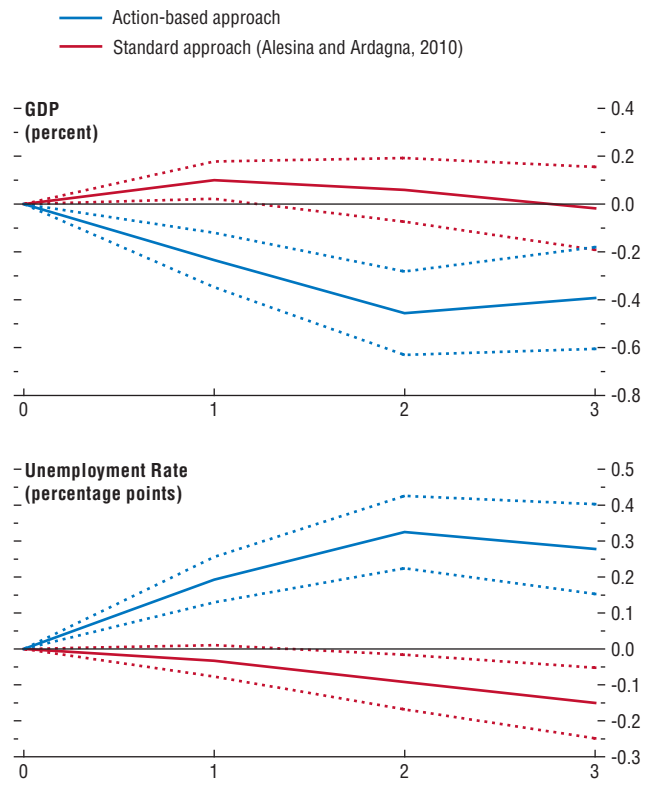


Figure 3.10. Impact of Large Fiscal Consolidation on GDP and Unemployment: Action-Based Approach versus Standard Approach

(Impact of each additional 1 percent of GDP fiscal consolidation)

Fiscal retrenchment usually triggers faster growth and lower unemployment according to the standard approach, exemplified by Alesina and Ardagna (2010). But according to our action-based approach, the opposite is true.



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