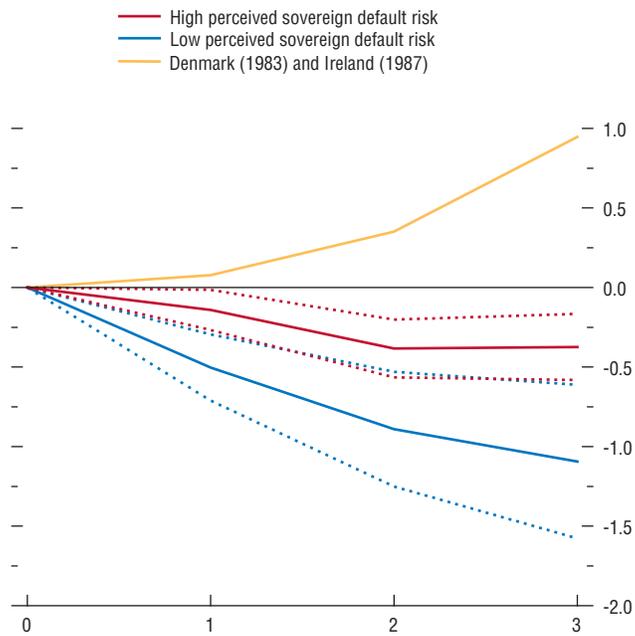


Figure 3.9. Estimated Impact on GDP of a 1 Percent of GDP Fiscal Consolidation
(Percent)

Fiscal consolidation preceded by high perceived sovereign risk is less contractionary than when preceded by low perceived default risk. But even for the group with high perceived risk, fiscal retrenchment rarely triggers faster growth. Exceptions include Denmark (1983) and Ireland (1987)—two cases of fiscal consolidation studied by Giavazzi and Pagano (1990)—which were expansionary.



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