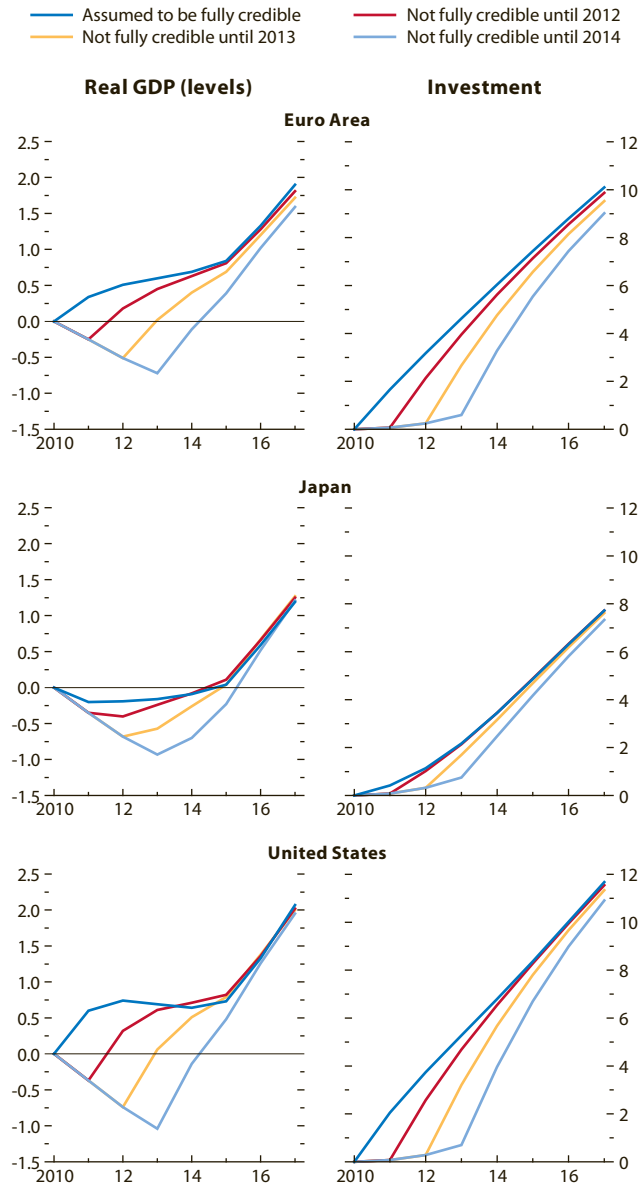


Figure 1.17a. Fiscal Consolidation Packages Designed to Raise Potential Output under Different Assumptions about Credibility

(Percent deviation from control)

The medium-term effects of fiscal consolidation in the advanced economies will depend on the expenditure and tax instruments that are used. Some illustrative simulations with the Global Integrated Monetary Fiscal (GIMF) Model show that fiscal policies designed to raise potential output (lower taxes on capital and labor and higher taxes on consumption goods) could be successful in raising world output in the short term if they result in large downward revisions in expectations for future levels of debt and taxes on capital and labor. The simulations have been constructed under different assumptions about credibility to show the implications if agents are initially skeptical that the policies will be followed.



Source: Global Integrated Monetary Fiscal Model simulations.