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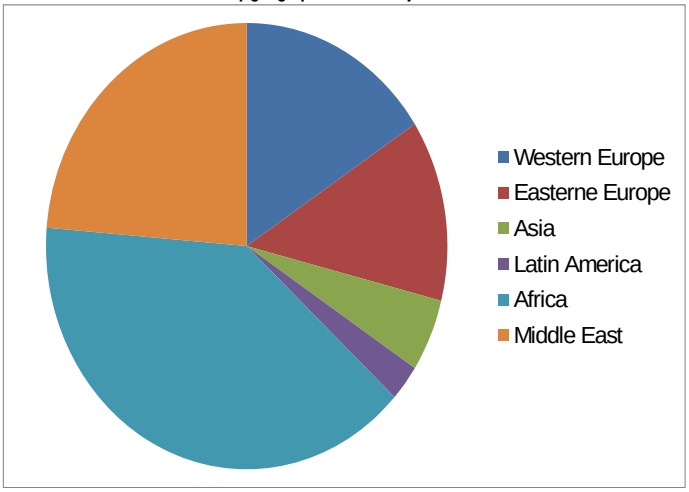
Consolidation without devaluation: does it work?

- For countries experiencing a balance of payments crisis or running an excessive current account deficit, devaluing the nominal exchange rate can offer a quick return to competitiveness. However, this option is not available to countries belonging to a monetary union or with a fixed exchange rate regime in place (i.e. that have pegged their currency to a reference currency) without jeopardising said system.
- Between 1980 and 2010, thirty-eight adjustments to the current account balance of over 5 GDP percentage points were identified in thirty-two countries with either a fixed exchange rate regime or that were members of a monetary union.
- The sample of countries varies widely in terms of geography and includes both developed and emerging economies. The duration and size of the adjustments identified varied from country to country.
- After stripping out those countries that enjoyed particularly buoyant conditions, two diametrically opposed types of adjustment emerged based on the factors identified: contrained adjustments carried out as a result of market pressure (with public and private economic agents reducing their demand for credit due to tougher borrowing and lending terms) and autonomous adjustments made against a backgground of moderate market pressure and the political will to boost a country's competitiveness and exports.
- In the majority of cases, external factors (improved terms of trade, depreciation of the reference currency, upturn in global demand and transfers) played an important role in bringing about the adjustment.

Breakdown by geographic area of adjustments identified



Source: DG Trésor.

MINISTÈRE DE L'ÉCONOMIE ET DES FINANCES

MINISTÈRE DU COMMERCE EXTÉRIEUR

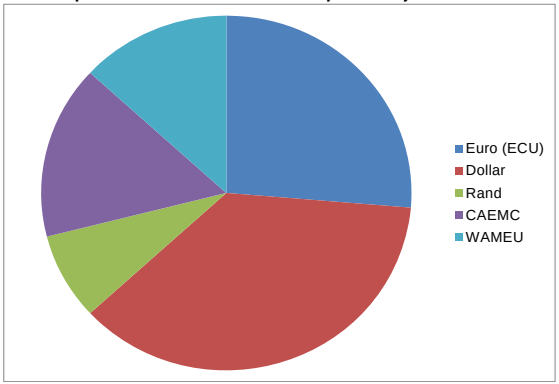
Countries that are part of a monetary union or that peg their currencies to a reference currency generally do so to boost the credibility of their monetary policy and anchor inflation expectations. However, the rigidity of nominal exchange rates can lead to a build-up of significant current account deficits[1] and ratchet up external debt. Concerns regarding the sustainability of this debt may trigger an adjustment to the current account balance as well as a possible adjustment to the exchange rate (via an exit from the monetary union or a devaluation of the currency with respect to the reference currency). An improvement in the current account balance may also come from numerous factors and can be achieved in a diverse number of ways that do not necessarily require a complete abandonment of the fixed exchange rate regime.

This paper aims to identify adjustments made to current account balances by countries belonging to a monetary union or with a fixed exchange rate regime in place between 1980 and 2010 that did not involve an exchange rate depreciation. These current account balance adjustments can be classified based on the importance of the role played by the external economic climate, the financial constraints and the economic policies implemented by the authorities to facilitate these adjustments or simply make them possible.

1. Thirty-eight adjustments to the current account balance under a fixed exchange rate regime in thirty-two countries between 1980 and 2010

We looked at adjustments[2] of over 5 GDP percentage points that were made without modifying the exchange rate regime or devaluing the currency (see Box 1). Our sample (see Table 3) covers a diverse number of geographical areas, includes both developed and emerging economies and compares countries that are members of a monetary union or those that have a fixed exchange rate regime in place[3]. We excluded those adjustments: 1/during which a devaluation occurred; 2/ which saw a devaluation in the previous two years. Six[4] of the countries in our sample made two adjustments to their current account balances.

Chart 1: portion of each reference currency in the adjustments identified



Source: DG Trésor.

Only improvements to the current account balance of over 5 GDP percentage points were included. Two definitions were used, one corresponding to a quick and generally significant increase and the other corresponding to a gradual, comparatively smaller adjustment. These definitions describe an upturn in the current account balance and not necessarily a change in direction. The current account balance did not necessarily change sign and did not necessarily change from negative to positive.

The **duration of the adjustment** is equivalent to the number of years during which the current account balance/GDP indicator was on an upward trajectory[5].

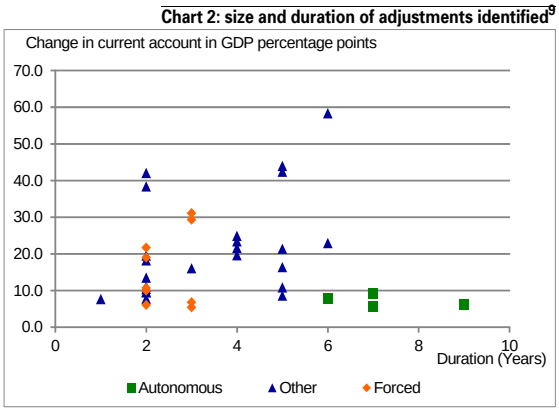
The data used to classify the exchange rate regimes are those published on the London School of Economics and Political Science (LSE) website by Ethan Ilzetzki[6]. We used IMF data for the current account balance/GDP indicators. We excluded the smallest economies[7] (fewer than 300,000 inhabitants) that are generally open and sensitive to external factors[8].

These current account adjustments under a fixed exchange rate regime can be classified based on:

- **Their size** which ranged from an increase of over 5 percentage points in GDP for Spain and Austria to a leap of over 108 GDP percentage points for Chad. After stripping out adjustments still ongoing in 2010, the average current account improvement came out at 22.1 GDP percentage points and the median at 16.4 GDP percentage points. Adjustments of this magnitude may seem high but are caused by the excessive representation in the sample of smaller open economies that are highly dependent on changes to the terms of trade and, for certain countries, the significant impact that commodity exports have on the current account balance.

(1) This is the case when savings within the country are insufficient to cover investment.
(2) The original sample consisted of 104 countries that belonged to a monetary union or pegged their currencies to a reference currency during at least two consecutive years between 1980 and 2010.
(3) More specifically, we included cases where the exchange rate regime was classified as 1 in Reinhart and Rogoff's coarse exchange rate regime classification, i.e. where there was no domestic currency (monetary unions and the reference currency is legal tender), there are explicit monetary policy anchors (currency boards), the exchange rate floats within a narrow band and there is a de facto peg (maintained implicitly by the monetary authorities).
(4) Bahrain, Côte d'Ivoire, Gabon, Lithuania, Saudi Arabia, and Swaziland.
(5) Only current account adjustments after 1983 (i.e. year n-3 corresponds to 1980) were taken into account. For long adjustments, we factor one-off events into the length of adjustment calculation (slight deterioration in the current account balance prior to a recovery).
(6) http://personal.lse.ac.uk/ilzetzki/IRRBack.htm
(7) Anguilla, Antigua, Barbados, Dominican Republic, Grenada, Kiribati, Liechtenstein, Marshall Islands, Micronesia, Monaco, Palau, Saint Martin, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines.
(8) We excluded Bhutan and Bosnia (due to doubts about the reliability of the data).

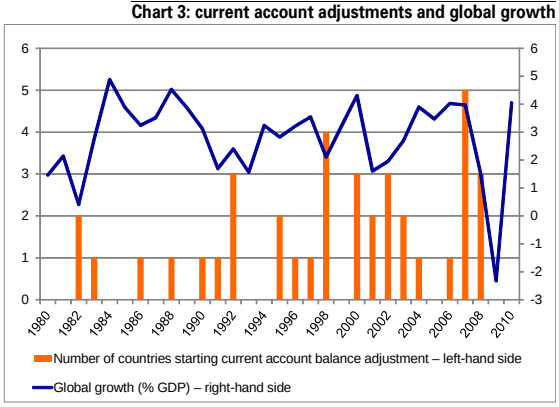
Chart 2: size and duration of adjustments identified[9]



Source: DG Trésor.

- **Their duration**, ranging from one year for Mali to nine years for Belgium between 1990 and 1999. The median duration was four years. Thirteen adjustments lasted for more than five years and thirteen for less than two years.
- **The period** when they occurred: most of the adjustments began when global demand was weak or global growth was in decline. This may indicate that financial tensions, which were exacerbated at the time of the crises, triggered an adjustment process in countries running a current account deficit. Consequently, adjustments began in eight countries in 2007 or 2008 and in ten countries between 2000 and 2003 which at that time were aided by the rebound in the economic climate after 2000.

Chart 3: current account adjustments and global growth



Source: DG Trésor.

2. An analysis of the current account adjustment factors highlights two diametrically opposed cases: contrained adjustments and autonomous adjustments

After stripping out the adjustments made by countries that enjoyed particularly buoyant conditions (demand for commodities, improvement in weather conditions for agricultural economies, transfers, end to political or military unrest), the current account adjustments under a fixed exchange rate regime can be arranged into two groups (see Box 2). The appendix outlines the main adjustment factors for the countries reviewed.

2.1 Contrained adjustments made during a crisis

External pressure can often force a country to pursue a current account adjustment policy with significant economic and social costs in the short run. This pressure is particularly apparent in countries that have run up excessive current account deficits. It may take the form of capital outflows and/or tougher financing conditions for economic agents. In particular, countries with pegged exchange rates (but not part of a monetary union) may be subject to speculative runs on their currency (i.e. a generalised move to sell the currency) which may prompt the central bank to intervene on the forex markets and/or raise interest rates to prop up the exchange rate. In response to tougher financing conditions, economic agents cut back on demand, which helps improve the balance of trade - this happened in numerous peripheral European countries at the time of the 2008 crisis (Bulgaria, Estonia, Ireland, Latvia, Lithuania, Spain, in 20072008[10]), and in other countries (Hong Kong, Lebanon, Lithuania in 1998-2001, Mali, Niger).

Adjustments of this type normally began during gloomy economic times, a decline in global demand, a contraction in GDP (average dip in GDP of 2.1% per annum) and a rise in unemployment (+7.9 points on average). Countries occasionally benefitted in subsequent years from an uptick in the economic climate. These adjustments were relatively short (2.3 years on average) and comparatively strong (average improvement in the current account balance of 14.6 GDP percentage points and median upturn of 10.7 GDP percentage points).

2.2 Autonomous adjustments

Some countries opted for pursuing policies aimed at improving the current account balance before becoming subject to market pressure by developing the open economy and boosting competitiveness - through wage restraint policies, greater competition and productivity gains. Fiscal consolidation and/or credit restriction strategies were also implemented, dampening down domestic demand.

The four autonomous adjustments (Germany from 2000 to 2007, Austria from 1995 to 2002, Belgium from 1990 to 1999, Netherlands from 2000 to 2006) were weaker (7.2 GDP percentage points on average) **and longer** (7.3 years on average) than the forced adjustments. The current account balance had deteriorated by less when the adjustment began. The rise in unemployment was not as marked as it was for the forced adjustments (2.3 GDP percentage points on average compared to 7.9 GDP percentage points) and the average annual growth rate was stronger (2.2 GDP percentage points on average compared to −2.1 points). Market pressure during the adjustment period was relatively weak, with a moderate jump in long rates at the beginning followed by a dip (in Austria and Belgium).

(9) To make the chart clearer, the adjustment to Chad's current account balance (increase of 108.4 GDP percentage points in 5 years) was not included.

(10) For countries that implemented two adjustments under a fixed exchange rate regime, the years at the start and end of the adjustment appear after the country's name to indicate to which adjustment the data refers.

Table 1: Change in main macroeconomic variables during the adjustment

Type of adjustement	Forced adjustements (9 cases	Autonomous adjustements (4 cases)	Sample total (38 cases)
List of countries	Bulgaria, Estonia, Hong Kong, Ireand, Latvia, Lebanon, Lithuania 98-01, Lithuania 07-09, Spain	Austria, Belgium, Germany, Netherlands	
Average size of adjustment (% GDP)	15.6	7.2	20.9
Average duration of adjustment (in years)	2.4	7.3	3.6
Current account balance at start of adjustment (% GDP)	−14.6	−0.2	−14.4
Maximum increase in rate of unemployment during adjustment (in points)	7.9	2.3	4.0
Increase in GDP during adjustment (%)	−5.0	15.8	15.9
Average speed of adjustment (% GDP/year), size/duration ratio	6.4	1.0	5.8
Average annual growth in GDP during adjustment (% GDP/year)	−2.1	2.2	4.4
Change in primary budget balance during adjustment (% GDP)	−10.2	0.5	0.3

Sources: IMF, DG Trésor. DG Trésor calculations.

Box 1: **Arranging the adjustments into two categories (forced adjustments and autonomous adjustments) was based on a systematic examination of the variable weighting of a group of external factors and the type of economic policies implemented by the authorities**

Economic policies:

- **Fiscal consolidation** has a direct negative impact on domestic demand and therefore imports. This negative impact tends to put a drag on prices and therefore on the real exchange rate under a fixed exchange rate regime, which boosts export competitiveness.
- **Lending restrictions** tend to dampen down domestic demand and therefore imports. They also push prices lower, which boosts export competitiveness through a depreciation of the real exchange rate.
- **Policies to improve competitiveness** aim to reduce domestic prices compared to foreign prices. They may take the form of tax policies (customs duties, fiscal devaluation), disinflation policies[a] through increased competitiveness, wage restraint or productivity gains.
- **Development of the open economy** aims to boost exports in the sectors where the country has a competitive advantage coupled with an expansion in trade in geographic areas seeing strong growth. These policies were aimed in particular at boosting investment in these areas.

External factors:

- **Financial tensions** may take the form of a hike in government or private sector interest rates, capital outflows or pressure on exchange rates. They have an indirect impact on the current account balance in that they force economic agents to cut back on demand in response to tougher borrowing and lending conditions.
- **A recovery in global demand** triggers an upturn in exports and therefore, all other things being equal, the balance of trade and current account balance.
- **The improvement in the terms of trade** has a positive impact on export prices and therefore the current account balance if there is a weak fall in demand in response to price hikes. This factor plays a key role for countries that export commodities, especially oil.
- **The depreciation in the real effective exchange rate triggered by a fall in the pegged nominal exchange rate** leads to an improvement in competitiveness.
- **Transfers**, be they official or unofficial, have a direct impact on the current account balance.

a. J.P. Fitoussi, A.B. Atkinson, O. E. Blanchard, J.S. Fleming, E. Malinvaud, E.S. Phelps, R.M. Solow, (1993), "Competitive disinflation : the Mark and Budgetary Politics in Europe", International Policy Group of OFCE.

3. A large number of factors played a role in the improvement seen in current account balances

3.1 Most of the economies that saw an adjustment benefitted from a buoyant external environment which helped reduce its economic and social cost

Countries that went through forced adjustments often benefitted from the recovery in global demand and a reduction in pressure on the financial markets.

The autonomous adjustments were helped along by the jump in global demand and on certain occasions by a depreciation of the reference currency (Austria and Belgium). Exporters of commodities were able to take advantage of an improvement in the terms of trade while agricultural economies benefitted from an upturn in production conditions.

However, certain factors had a negative influence on the adjustment process. Germany and the Netherlands both saw adjustments despite an appreciation in the real effective exchange rate of 7.1% and 11.4% respectively during the adjustment period, i.e. between 2000 and 2007 for Germany and between 2000 and 2006 for the Netherlands. Adjustments occurred in several European countries during the crisis of 2008 (Bulgaria, Ireland, Latvia, Spain and Lithuania). Other countries were faced with weaker global demand during their respective adjustment periods, including Belgium during its 1993 downturn and Austria and Lithuania during their respective downturns in 2000. Outside Europe, most of the adjustments occurred either simultaneously with or after an economic or geopolitical crisis and were aided by a decline in these crisis factors[11]

(11) Especially the SARS epidemic in Malaysia, the Asian debt crisis which affected Hong Kong, the assassination of R. Hariri in Lebanon, a hurricane in Belize, and the terms of trade for Oman.

and a subsequent improvement in the economic environment. Niger underwent a successful adjustment from 1982 to 1984 despite a negative external climate and at a high social cost which was nevertheless cushioned by official transfers.

3.2 The adjustments brought into play both short-term policies and more structural reforms

3.2.1 Short-term policies were designed to tackle the financial tensions and budget imbalances

In the short run, most of the adjustments were a combination, to a lesser or greater extent, of tax hikes and spending cuts depending in particular on outside constraints (financial tensions, compliance with Maastricht criteria for Austria and Belgium). Several countries raised their VAT rates, sales taxes or excise duties (Burkina-Faso, Djibouti, Spain, Estonia, Latvia, Lithuania in 2007-2009, Germany, the Netherlands, Côte d'Ivoire in 20002002, Gabon in 1992-1996, Lesotho, Lebanon, Mali and Niger) and applied wage restraint measures in the public sector (wage freezes or cuts or reduction in the number of civil servants: Austria, Bulgaria, Germany, Latvia, Ireland, Gabon in 1992-1996, Kuwait, Mali, Niger, Spain,). Some countries implemented public spending cuts (Saudi Arabia in 1991-1996, Bahrain in 1992-1996, Côte d'Ivoire), capital expenditure (Spain, Côte d'Ivoire) and energy subsidies (Jordan, Malaysia and Kuwait). Others managed to put through adjustments without introducing a restrictive budget policy (especially Lebanon and Hong Kong) at a time of monetary tightening aimed at protecting fixed exchange rate regimes.

Monetary policy was very often restrictive to minimise capital flight from countries with a fixed exchange rate regime, i.e. in Eastern Europe after the 2008 crisis, Lithuania during the Russian crisis, Lebanon in 2004 and Hong Kong in 1997. The policies helped to fight inflation (in Malaysia and Equatorial Guinea for example) and often consisted of prudential measures (e.g. in Oman and Kuwait).

Few countries applied protectionist measures, apart from Mali and Niger at the start of the 1980s. In contrast, the reduction in customs duties helped to boost competition and push prices lower, particularly in the context of regional or multilateral agreements (e.g. accession to the Schengen Area, creation of the Greater Arab Free Trade Area and the South African Customs Union, WTO). Some countries introduced tax measures to improve competitiveness (fiscal devaluation) through a combination of higher VAT and lower taxes (Germany, the Netherlands).

3.2.2 Labour market structural reforms varied significantly depending on the adjustment

For autonomous adjustments, unit labour costs increased more slowly during the adjustment period compared to the OECD average, due for the most part to wage restraint measures: in Germany (-5% vs. +14%), Belgium (+21% vs. +42%) and Austria (+0% vs. +24%).The Netherlands was an exception, seeing a slightly better improvement (13% vs. 12%). The dip in unit labour costs was more the product of the wage restraint measures implemented rather than productivity gains achieved. During the adjustment period, labour productivity gains were similar in Germany, Austria and the Netherlands compared to the OECD average (data not available for Belgium). As well as reducing unit labour costs, the wage restraint measures had a dampening down effect on domestic demand (particularly consumption), which contributed to the external adjustment. O. Blanchard[12] believes that the impact of wage restraint policies on domestic demand was behind the relatively weak German growth levels achieved compared to the euro area as of 1995.

Increased labour market flexibility was limited in the case of autonomous adjustments. Wage restraint was implemented over a longer time period, mainly through weak growth in nominal salaries in line with inflation, while wages were rising at a faster rate in other trading partner countries. The employment protection legislation (EPL) indicators published by the OECD do not point to a clear trend towards greater labour market flexibility. German legislation, for example, has become more protective for permanent contracts but more flexible for temporary contracts (see Table 2).

Table 2: Employment Protection Legislation (EPL) indicators for autonomous adjustment cases

	Permanent employment contracts			Temporary employment contracts		
	Start of adjustment	End of adjustment	Variation	Start of adjustment	End of adjustment	Variation
Germany	2.68	3.00	0.32	2.00	1.25	−0.75
OECD average	2.14	2.10	−0.04	1.85	1.79	−0.06
The Netherlands	3.05	3.05	0.00	1.19	1.19	0.00
OECD average	2.14	2.12	−0.02	1.85	1.78	−0.07
Austria (*)	2.92	2.92	0.00	1.50	1.50	0.00
OECD average	2.13	2.14	0.01	1.90	1.79	−0.11

(*) The start of the adjustment in Austria was taken as 1998 and not 1995 due to the lack of available data.Source: OECD.

Source: DG Treésor calculations.

Labour market reforms resulted in an increase in the economically active population, which helped with wage restraint. These reforms targeted pensions in particular, including an increase in the statutory retirement age and measures to discourage early retirement (in Germany and the Netherlands). Steps were taken to decrease the reservation wage to help boost the economically active population (in Germany, the Netherlands and Ireland), notably by cutting unemployment benefits. Lastly, the creation of employment agencies and the introduction of training programmes also helped to raise the economically active population in certain countries.

Changes to legislation and wage negotiations made it possible to bring wage increases into line with productivity gains. For example, between 1993 and 1996, Belgium took steps to limit national wage increases to keep them in line with the increases of its main trading partners. Germany lowered the social security contribu-

(12) O. Blanchard, (2007), "Adjustment within the euro. The difficult case of Portugal", *Portuguese Economic Journal.*

tions for low-paid workers in 2003. Wage restraint measures appear to have been more effective when implemented over a longer time period (in Austria and Germany). In several peripheral European countries (Spain, Latvia, Ireland, Italy, Portugal), nominal wage rigidity held back the adjustment and caused unemployment to soar. Some studies show that public sector wage cuts, such as those implemented in Latvia and Ireland[13] between 2008 and 2010, had very little impact on private sector salaries. However, adjustment to wages and relative prices are ongoing in these countries and it is too early to draw any final conclusions.

3.2.3 Competition was stimulated on the goods and services markets

Austria, Belgium, the Netherlands and Lebanon all beefed up their anti-trust authorities. Deregulation reduced the barriers to entry and limited some situations that were particularly advantageous (Burkina Faso, Spain, Jordan, Germany, Austria, the Netherlands, Lebanon, Lithuania, Côte d'Ivoire in 2000-2002, Lesotho, Gabon in 1992-1996, Mali, Niger, Saudi Arabia in 2001-2005, Bulgaria, Bahrain, Qatar and Chad). Most of the countries reduced the red tape for network or grid sectors (telecoms, energy) and sometimes the financial sector (Malaysia, Lesotho). These steps were combined with privatisation programmes which had a positive short-term impact on public debt and calls to the market for funds. Lastly, several countries took steps to improve the business climate and reduce the administrative burden for companies (Germany, Austria, the Netherlands, Lebanon, Bulgaria and Lithuania).

3.2.4 Capital and labour productivity gains were achieved, especially through long-term investments

Most of the countries in the sample carried out programmes aimed at boosting their productivity. However, the productivity gains achieved did not always outstrip those achieved elsewhere. For example, the productivity gains were similar in the OECD countries and in those countries that implemented autonomous adjustments. Moreover, for short adjustments, the positive impact on the current account balance of programmes aimed at boosting productivity was not always visible during the timescale studied. The programmes included an industrial restructuring programme launched in Austria in the 1990s to boost productivity and a programme in the Netherlands to create a platform to support innovation and invest in strong-growth sectors. Labour productivity grew during the adjustment, with a few exceptions (e.g. in Lithuania between 2007 and 2009). Most of the countries, particularly the emerging economies, invested in education (Belgium, Burkina Faso, Bulgaria, Malaysia and Niger) and in infrastructure construction projects (Lithuania in 1998-2001, Niger, Gabon in 1988-1990, Oman, Lithuania in 20072009, Bulgaria, Burkina Faso).

3.2.5 The majority of countries developed their open economy, particularly in areas where they enjoyed a competitive advantage

For commodity exporters, the government or private sector implemented policies aimed at exploiting, and boosting the exports of, natural mineral, energy (Burkina Faso, Lesotho, oil-producing countries) and agricultural (Côte d'Ivoire, Gabon, Mali, Central African Republic, Chad) resources.

Countries in the sample increased their output of manufactured goods for export or to reduce their dependence on imports (industrialised countries and certain oil-producing countries: Saudi Arabia, Bahrain in 2002-2007, Oman, Qatar, Chad).

The benefits of expanding the open economy were even greater for export countries when the demand from trading partners was strong and on the increase. For example, certain European countries (Germany, Austria and the Netherlands) gained from the growing demand for capital goods in the emerging economies (especially Eastern Europe, the Middle East and Asia). In the 2000s, oil-producing countries gained from the leap in global demand and oil prices.

Conclusion

There are a variety of examples of current account balance adjustments under fixed exchange rate regimes. In most of the examples identified, the countries gained from a significant pick-up in the economic environment or the demand for commodities during the adjustment period. The economic and social cost of the adjustment process was generally greater when it took place against a background of financial stress or market pressure. In these cases, the rebalancing of current accounts involved a compression in domestic demand triggering a drop in imports and prices which led to gains in competitiveness. The current account adjustment period was longer in countries that were not experiencing any financial stress or were under only moderate market pressure. This additional time enabled them to introduce new structural policies to boost competitiveness at a lesser social cost. This resulted in a weaker rise in unemployment compared to that recorded for bigger and faster adjustments. Economic policies to boost the current account balance were implemented to a greater or lesser extent and using different components depending on the country: development of the open economy, capital and labour productivity gains, increased competition and wage restraint.

Jean LE PAVEC

(13) S. Piton, Y.E. Bara (2012), "Internal Devaluation: Nothing but Sweat and Tears?" La Lettre du CEPII, no. 234.

Table 3: Description of the sample and current account adjustment factors recorded

	Adjustment							Type of adjustment	
	CAB at start of adj	CAB at end of adj	Size	Periode	Dura-tion	Peg(*)	Type	External environment	Domestic demande
Germany	−1.7	7.5	9.2	2000-2007	7 yrs	euro	auto.	Negative at the start (crisis in 2001), then positive, gains in competitiveness	Wage restraint, fiscal adjustment
Saudi Arabiae	−21.0	0.4	21.4	1991-1996	5 yrs	dollar		Deterioration in the terms of trade followed by a recovery at the end of the adjustment period, growth in the oil sector	Fiscal adjustment (after the Gulf War)
Saudi Arabiae	5.1	28.5	23.4	2001-2005	4 yrs	dollar		Improvement in the terms of trade, growth in the oil and non-oil sectors	Restrictive monetary policy towards the end of the adjustment, certain fiscal restraint measures
Austria	−2.9	2.6	5.5	1995-2002	7 yrs	ECU/ euro	auto.	Negative at the start (crisis in 2001), then positive, gains in competitiveness	Fiscal adjustment before joining the euro, wage restraint
Bahreïn	−17.4	4.3	21.7	1992-1996	4 yrs	dollar		Deterioration at the start then improvement in the terms of trade	Dip in imports after the Gulf War
Bahreïn	−0.7	15.7	16.4	2002-2007	5 yrs	dollar		Improvement in the terms of trade, growth in the non-oil sector	Prudential measures, some fiscal measures
Belgium	1.8	7.9	6.1	1990-1999	9 yrs	ECU/ euro	auto.	Downturn in foreign demand (1990-1993) followed by a recovery	Fiscal consolidation before joining the euro, wage restraint
Belize	−18.6	−2.5	16.1	2003-2006	3 yrs	dollar		Improvement in the terms of trade, increase in foreign demand	Strong fiscal adjustment, prudential measures
Bulgaria	−30.2	−0.9	29.3	2007-...	ongoing	euro	forced	Sharp decline (global crisis) followed by a slight recovery	Sharp contraction in public and private domestic demand
Burkina Faso	−11.2	−3.5	7.8	2008-...	ongoing	wameu		Nose-dive in global demand (global crisis) followed by a recovery	Nose-dive in domestic demand at a time of crisis (floods) and consumer price increases
Côte d'Ivoire	−11.4	−0.9	10.4	1992-1994	2 yrs	wameu		Deterioration in the terms of trade followed by an improvement, dip in real effective exchange rates following the devaluation of the CFA franc, transfers	Fiscal adjustment
Côte d'Ivoire	−2.8	6.7	9.5	2000-2002	2 yrs	wameu		Deterioration followed by an improvement in the terms of trade, dip in global demand followed by a rebound	Fall in private demand (domestic unrest)
Djibouti	−24,3	−4.8	19.6	2008-...	ongoing	dollar		Fall in global demand (global crisis) followed by a rebound	Fall in private demand
Spain	−10.0	−4.6	5.4	2007-...	ongoing	euro	forced	Sharp decline (global crisis) followed by a slight recovery	Sharp contraction in public and private domestic demand
Estonia	−17.2	4.5	21.7	2007-2009	2 yrs	euro	forced	Sharp decline (global crisis) followed by a slight recovery	Sharp contraction in public and private domestic demand
Gabon	−15.7	2.5	18.2	1988-1990	2 yrs	caemc		Improvement in the terms of trade, growth in the oil and mining sectors	Fiscal adjustment
Gabon	−4.0	15.6	19.6	1992-1996	4 yrs	caemc		Deterioration followed by an improvement in the terms of trade, dip in real effective exchange rates following the devaluation of the CFA franc in 1994, transfers	Fiscal adjustment
Equatorial Guinea	−33.3	9.1	42.4	2003-2008	5 yrs	caemc		Improvement in the terms of trade, growth in the oil and gas sectors	Public spending cuts, restrictive monetary policy
Hong Kong	−4.4	6.3	10.7	1997-1999	2 yrs	dollar	forced	Deterioration (Asian crisis, depreciation of the yen, speculative attacks on the exchange rate regime) followed by a recovery	Sharp contraction in private demand (deterioration in financing conditions - protection of the fixed exchange rate regime)
Ireland	−5.7	0.4	6.1	2008-...	ongoing	euro	forced	Sharp decline (global crisis) followed by a recovery	Sharp contraction in public and private domestic demand
Jordan	−17.2	−3.7	13.5	2007-2009	2 yrs	dollar		Improvement at the start (after the Iraq crisis, improvement in the terms of trade, finalisation of Paris club agreements) followed by a deterioration (global crisis)	Contraction in public and private domestic demand
Kuwai	11.2	36.1	24.9	2002-2006	4 yrs	PM (**)		Improvement in the terms of trade	Prudential measures, wage restraint
Lesotho	−37.9	6.1	44.0	1996-2001	5 yrs	rand		Dip in real effective exchange rates relating to the rand's depreciation, growth of the open economy	Dip in private demand (domestic unrest)
Latvia	−22.5	8.6	31.1	2006-2009	3 yrs	euro	forced	Sharp decline (global crisis) followed by a recovery	Sharp contraction in public and private domestic demand
Lebanon	−15.3	−5.3	10.0	2004-2006	2 yrs	dollar	forced	Deterioration (capital flight and speculative attacks on the exchange rate regime) followed by conflict with Israel	Fall in domestic demand due to a political (assassination of R Hariri) then financial crisis
Lithuania	−11.5	−4.7	6.8	1998-2001	3 yrs	dollar	forced	Negative at the start (appreciation of the dollar against the euro), improvement in the terms of trade, productivity gains	Initial contraction (recession in 1999), contraction in public demand during the adjustment period, wage restraint
Lithuania	−14.6	4.4	19.0	2007-2009	2 yrs	euro	forced	Sharp decline (global crisis) followed by a recovery	Sharp contraction in public and private domestic demand
Malaysia	7.9	16.5	8.6	2001-2006	5 yrs	dollar		Negative at the start (crisis in 2001, SARS epidemic), then positive, improvement in the terms of trade	Contraction in the first year followed by a recovery
Mali	−4.9	2.8	7.7	1986-1987	1 yrs	wameu		Fall then rebound in agricultural output, improvement in the terms of trade, transfers	Moderate public spending cuts
Niger	−11.6	−0.5	11.1	1982-1984	2 yrs	wameu		Transfers (debt restructured and treated in the Paris Club since 1983)	Sharp fiscal adjustment, nose-dive in available credit
Oman	−22.5	15.9	38.4	1998-2000	2 yrs	dollar		Improvement in the terms of trade	Restrictions placed on domestic demand (prudential measures)
The Netherlands	1.9	9.7	7.8	2000-2006	6 yrs	euro	auto.	Negative at the start (crisis in 2001), then positive, productivity gains	Wage restraint, fiscal adjustment
Qatar	−31.0	27.3	58.4	1995-2001	6 yrs	dollar		Deterioration followed by an improvement in the terms of trade at the end of the adjustment, diversification of exports	Fiscal adjustment, wage restraint, prudential measures
Central African Republic	−12.8	−3.1	9.7	1983-1985	2 yrs	caemc		Positive, production conditions re-established after the 1983 drought	Fiscal adjustment
Republic of the Congo	−28.5	13.5	42.1	1998-2000	2 yrs	caemc		Positive, recovery in the export sector, transfers	Weak private demand (military unrest at the start of the adjustment period)
Swaziland	−12.2	10.7	23.0	1982-1988	6 yrs	rand		Dip in real effective exchange rates due to the rand's depreciation	Political troubles due to the King's succession
Swaziland	−6.0	4.9	10.9	1998-2003	5 yrs	rand		Dip in real effective exchange rates due to the rand's depreciation, growth of the open economy	Dip in private demand in relation to higher consumer prices, fiscal adjustment
Chad	−94.7	13.7	108.4	2002-2007	5 yrs	caemc		Improvement in the terms of trade, growth in oil exports, transfers	Fiscal adjustment

Key: auto = autonomous; CAB= current account balance. The first three columns indicate the current account balance at the start of the adjustment, at the end of the adjustment and the size of the adjustment in GDP percentage points respectively for each country.
(*) The Belgian Franc and Austrian Schilling were part of the European Monetary System until 1999 before joining the euro (**) CB=currency basket (the Kuwait currency basket is gradually moving towards the dollar).

Sources: IMF, DG Trésor, DG Trésor calculations.

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