

# Monetary-Fiscal Crosswinds in the European Monetary Union

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# Summary

## Contribution

- study the monetary-fiscal interaction in the EA through the lens of the aggregate government BC
- new quarterly fiscal dataset
- suggest an empirical framework to study the adjustment of fiscal variables, returns, and inflation to unexpected monetary policy changes

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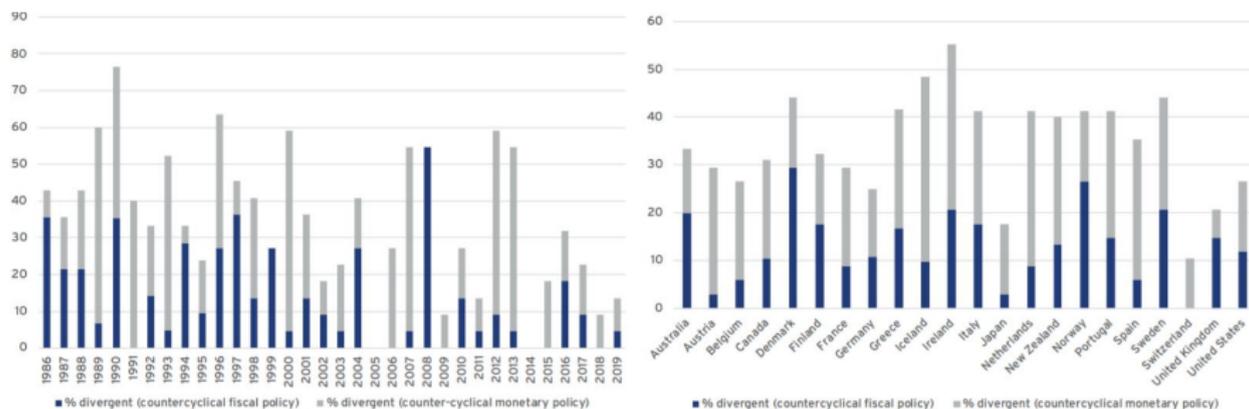
## Results

- conventional: fiscal policy leans towards the easing
- unconventional: muted fiscal response

# Would the results remain when extending the analysis to the EA12 or EA19?

Bartsch et al. (2021) find that most often MP and FP pull in different directions for a sample of advanced economies.

Figure 1: Share of countries and years with a divergent policy mix (%)

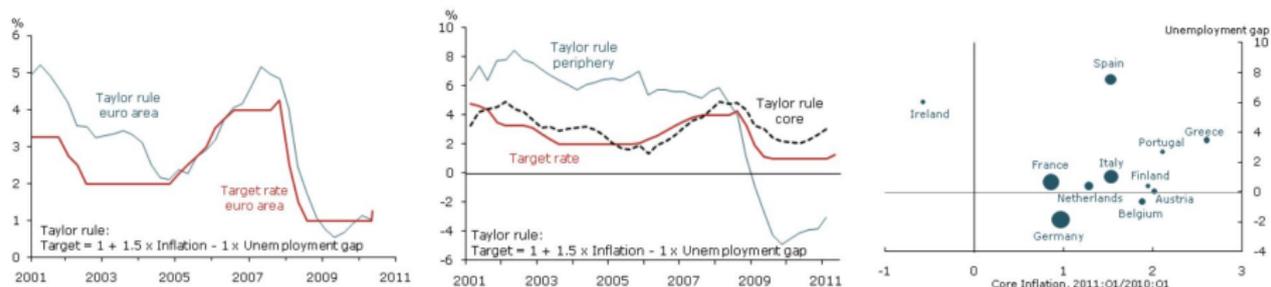


Source: Bartsch et al. (2021), based on November 2019 OECD Economic Outlook

# Would the results remain when extending the analysis to the EA12 or EA19?

- heterogeneous macroeconomic situations and debt constraints
- monetary policy does not fit all
- threat of disintegration

Figure 3: Taylor rule and target rates; EA unemployment and inflation



Note: Core is Austria, Belgium, France, Finland, Germany, Italy, and the Netherlands. Periphery is Greece, Ireland, Portugal, and Spain. Source: Nechio (2011).

# Is MP and FP "coordination" more frequent...

- **...during tail events?**
  - e.g. COVID-19, Great Recession
- **...in periods of higher public debt?**

And should there be more "coordination"?

- implicit versus explicit
- threat to MP independence
- extension of the mandate (e.g. Green MP)

## Other questions

What is the role of **heterogeneous output growth**?

Assumption: all countries have the same growth rate at the steady state.

What is the role of **fiscal transfers**?

Assumption: monetary union with transfers.

## Other comments

- How to reconcile the **short- and long-term evidence?**

Example of unconventional MP easing for Germany:

- muted fiscal response in the ST
  - (large?) fiscal tightening in the LT
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- How to put this evidence of crosswinds for Germany after UMP easing together with common belief that MP in the EA tends to be more favourable to Germany?

# References

Bartsch, E., Bénassy-Quéré, A., Corsetti, G., Debrun, X. (2020). It's All in the Mix: how Monetary and Fiscal Policies Can Work Or Fail Together. Geneva ICMB International Center for Monetary and Banking Studies; CEPR Centre for Economic Policy Research.

Nechio, F. (2011). Monetary policy when one size does not fit all. FRBSF Economic Letter, 18, 13.