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Date

Le 14 May 2019 De 12:30 à 13:30

Location

Pôle Tertiaire - Site La Rotonde - 26 avenue Léon Blum - 63000 Clermont-Ferrand

Room 210

Research seminar

Ultra Low Interest Rates: The Fiscal Side

ABSTRACT

The widespread model of independent central banks has used us to think about monetary and fiscal policies in isolation, ignoring the inextricable ties between the two instruments. This talk will discuss two essential fiscal dimensions of post-crisis fiscal policies. The first is the vanishing government budget constraint. When interest rates remain durably below the economy's growth rate, the notion of debt sustainability becomes even more elusive than in normal times, and the idea of a limit on public debt accumulation essentially disappears. In addition to ultra-low interest rates, unconventional monetary policies have turned central banks into de facto lenders of last resort for governments ("whatever it takes"), sheltering them from market discipline and the double threat of sovereign crisis and default. The perception of a limitless public debt may carry the seeds of acute fiscal stress when monetary policy ultimately normalizes, which is the second key fiscal dimension of post-crisis monetary policies. A number of daunting questions inevitably arise: What are the local and global risks of policy normalization in reserve currency countries? Can Japanization be avoided? Does it still make sense to view the central bank and the government as separate entities? Has inflation turned into a mostly fiscal phenomenon?





Xavier Debrun

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