



Creando Oportunidades

How can fiscal policy contribute to price stability?

Institute of International Monetary Research

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Global growth: monetary & fiscal policy

WORLD GDP GROWTH

(% Y/Y)



Source: BBVA Research, based on IMF, ECB and Eurostat

1 Monetary policy

- Will continue to lead the countercyclical effort...
- ...despite its reduced effectiveness in the current context.

2 Fiscal policy

- Should play a bigger role...
- ...but the political environment and high levels of debt restrict its use.

Monetary policy and inflation

Innovative (non-standard) tools

Quantitative Easing (QE)

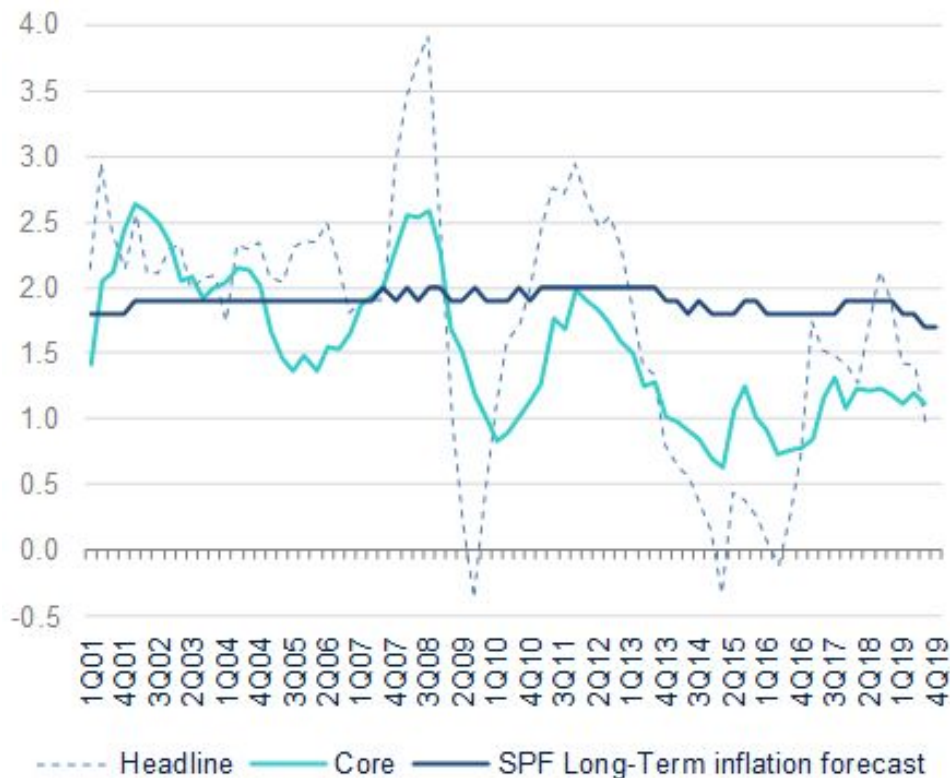
Yield Curve Control (YCC)

Negative Interest Rates Policy (NIRP)

Forward Guidance

EUROZONE: INFLATION

(% Y/Y)



Source: BBVA Research, based on IMF, ECB and Eurostat

Monetary policy cannot do all on its own, fiscal policy should play a role

In the past, reputation of fiscal policy as a stabilization tool was low

Discretionary **fiscal policy takes time** to operate on the economy

Fiscal stabilization was **often used as an excuse for political goals**, and fiscal stimulus are difficult to withdraw once they are implemented

1

Measured **fiscal stimulus** with low or zero interest fiscal

2

Helicopter money

3

MMT (Modern Monetary Theory)

Helicopter money

“ *The key word here is permanent increase as this is the way to manage expectations* ”

1

Monetary policy **would remain independent** and subject to an inflation target, while fiscal policy is subordinated to monetary policy

2

A **more effective alternative in extreme cases** to non-standard measures such as QE or negative rates

3

Set up the **appropriate governance structure** without questioning neither the independence of the CB nor achieving a nominal anchor

4

There is **always risk of overuse** due to political pressures

MMT (Modern Monetary Theory)



More extreme use of fiscal policy, supported by the increase in the monetary base to finance increased spending (or lower taxes)



1

Lack of a **well founded theoretical** corpus to support it

2

Risk of **inflation** and **hyperinflation**

3

Difficulties to stop the dynamics of **higher spending** and **lower taxes**

Conclusions

1 There is an ongoing debate over economic policies and the relative importance of monetary and fiscal policies.

2 We must keep rules for fiscal policy, even if they are designed differently.

3 Central banks should maintain their independence, and not be subject to fiscal dominance.

4 Monetary and fiscal policies are not a substitute but a complement of appropriate long-run growth policies.



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